

The National Gallery Annual Report and Accounts for the year ended 31 March 2013

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Presented to Parliament pursuant to section 9(8) of the Museums and Galleries Act 1992

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Objectives and activities

The National Gallery's foremost aim is to establish a central role for Old Master paintings in modern cultural life.

Our strategy to support this aim is built on the distinctiveness of the National Gallery and its work. We have one of the finest collections of paintings in the world that tells a coherent story about the development of Western European art over seven centuries, and the majority of our collection is continuously on display to the public, both in Trafalgar Square and on-line.

Our strategic objectives, set out below, presuppose our statutory responsibility to acquire pre-eminent works of art and our duty to preserve the collection and make it accessible to the public.

The programmes to realise these strategic objectives include an ambitious digital strategy, better public communication, academic initiatives and improvements to display, notably through the installation of LED lighting.

The National Gallery's strategic objectives are to:

- Preserve, enhance and develop the potential of our collections for our public; and
- Broaden our appeal and provide an exceptional visitor experience; and
- Inspire learning and engagement; and
- Invest in our staff, increase income and care for our physical facilities.

Review of achievements, performance and plans for the future

Preserve, enhance and develop the potential of our collections for our public¹

Activities during the year

Increase the depth and range of our collections

The acquisitions made by the National Gallery during this year have been outstanding in quality and number. Twenty five works were presented by the Trustees of Sir Denis Mahon's Charitable Trust through the Art Fund in 2013. These included works by the Italian baroque artists championed by Sir Denis, such as Guercino, Ludovico Carracci, Domenichino, Giordano, and Reni as well as by the Northern artists who took inspiration from them such as Johann Liss and Matthias Stom. These works from the collection of the late Sir Denis Mahon CH CBE FBA were on loan to the Gallery for many years. In addition Sir Denis bequeathed to the Gallery Guercino's *The Presentation of Jesus in the Temple*: this fine, very large painting on copper was famed in the artist's own lifetime, and marks a turning point in Guercino's style and career.

Further deepening of the Gallery's representation of Guercino was enabled when in 2012 Guercino's *The Samian Sibyl with a Putto* was accepted by HM Government in lieu of Inheritance Tax and allocated to the National Gallery, where it now hangs as a pendant to *The Cumaean Sibyl with a Putto*; a painting acquired the previous year from the collection of the late Sir Denis Mahon. These two monumental pictures are supreme examples of the refinement and grandeur of Guercino's mature style. Both date from 1651 and the National Gallery has been able to bring these two paintings together again three hundred and sixty years after they were first painted.

Lucian Freud in the last years of his life expressed the hope that his great painting by Corot, *Italian Woman*, would hang in the National Gallery as a way of thanking Britain for the refuge it provided for his family when it fled from Vienna in the 1930s. The painting was accepted by HM Government in lieu of Inheritance Tax and now enables the Gallery to present an outstanding example of the imposing and monumental single-figure works which Corot painted late in his career. The Gallery was also fortunate to be allocated a further painting accepted by HM Government in lieu of Inheritance Tax, Richard Parkes Bonington's oil sketch *La Ferté*, its first work by Bonington. Lastly it was able to purchase another oil sketch, its first work by the Vienna-trained painter Franz Anton Maulbertsch, *Allegory of the Continent of Asia*, which demonstrates the wit and expressive command of colour and brushwork that would lead him justly to be described as the outstanding inheritor of Tiepolo's legacy in the German-speaking world.

¹ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(a) and (b) that the Board shall "care for, preserve and add to the works of art and documents in their collection" and "secure that the works of art are exhibited to the public".

Maintain a full programme for conservation, supported by objective scientific study

The Gallery has a permanent policy of maintaining the highest standards of preservation of paintings by means of preventive and remedial conservation, supported by pre-eminent scientific research and analysis. The Gallery undertakes regular reviews of measures to ensure the safety of the collection within the building, and when paintings travel on loan. It continues to implement improvements to existing disaster planning methodology and emergency responses. Security measures to protect paintings from vandalism have been reviewed and staff duty rotas to respond to emergencies are reconfirmed regularly. The Gallery continues to revise its strategy and tactics for dealing with damage to pictures including notification procedures, methods and materials to be used in the event of urgent picture treatment, and responses to possible chemical attacks on pictures. (No incident of the last type has occurred in the Gallery for many years.)

Several notable restorations were completed during the year. These include: *Fracastoro* by Titian (NG3949); *Golfers on the Ice near Haarlem* by Van de Velde (NG869); *Dutch Men-of-War entering a Mediterranean Port* by Ludolf Bakhuizen (NG1050); *Portrait of a Lady* by Caspar Netscher (NG4790); *Kitchen Scene In the House of Martha and Mary* by Diego Velázquez (NG1375); *A Beach Scene with Fishermen* by Ludolf Bakhuizen (NG818).

The year saw the continuation of the Gallery's first Conservation Fellowship: a privately funded two – year position. The Gallery's Fellowship position fulfils a long-held strategy to incorporate advanced conservation training within the workings of the Conservation Department, as explicitly advocated in the Gallery's principal strategic document. The role is designed to give the Fellow the opportunity to develop their professional abilities in the context of the Gallery's rich tradition of interdisciplinary collaboration between conservators, scientists and curators. Within the present Fellowship scheme, the continuing complex panel treatment of Giovanni Martini da Udine's *Virgin and Child with Saints George, James the Greater and a Donor* (NG778) has provided new opportunities to work with the Getty Foundation's Panel Painting Initiative, an international programme designed to facilitate collaboration and knowledge transfer in a highly specialised area of conservation: 'to create new avenues for training emerging and mid-career professionals, to notch up advanced practitioners, and to increase knowledge on panel preservation'. Under the auspices of the Getty programme, Gallery permanent staff have spent time visiting and working with specialists from the Metropolitan Museum, the Museo del Prado, and the Opificio delle Pietre Dure in Florence; the treatment of the *Virgin and Child with Saints*, while undertaken solely by Gallery staff, will in turn stimulate much helpful discussion and exchange between experts and improve the Gallery's in-house skills in this important area of care of the collection.

The Gallery has undertaken scientific study in four main areas: research in, and refinement of, measures for preventive conservation of Old Master paintings; technical study (largely analysis) of paintings proposed for, or undergoing, conservation treatment; long-term studies with curators of the technical and material history of the collection for systematic catalogues; and R&D in imaging technology, procedures and documentation for archival and research project purposes.

The main activities in preventive conservation have been continuing review and testing of new (energy-efficient) lighting systems (LEDs) for general Gallery use; an experiment in the effects of transport on paintings, particularly those travelling on loan where some potential sensitivity might be expected; the long-term performance of microclimate enclosures and sealing, and further review of the principles of best practice in environmental control and management for preventive conservation for Old Master paintings, for which a second publicly-available document containing advice to specialists and the public is now available on the Gallery's website in a growing website area designated 'care for the paintings'.

All significant individual conservation projects have been supported by examination and analysis of paintings and advice to conservators. The past year has seen much new and re-evaluated technical research on the collection for a wide variety of subjects, to increase background knowledge for conservation. A major advance in the capacity of the scientific laboratory has been the full deployment of an instrument capable of 'chemical imaging' of paint microsamples using infrared microscopy (ATR-FTIR: attenuated total reflectance Fourier-transform infrared spectroscopy provided by an instrument funded by the Foyle Foundation). This technique has yielded significant new results, for example on the original materials and techniques of works by the Van Eycks and a better understanding of the mechanisms of deterioration of original materials such as natural ultramarine (in oil media) and the constitution of green glazing paints in Northern Renaissance works. The ATR-FTIR analytical technique is a particularly powerful tool in analysing surface layers of deteriorated paint and varnish and therefore has an important role in providing help to conservators in devising reliable and demonstrably safe conservation treatments.

New technical documentation and image viewing systems continue to be developed for specific interdisciplinary research projects, including those involving conservation treatments.

Create public programmes that enhance and illuminate the collection

The Gallery mounted nine temporary exhibitions during the year, but the most innovative of these was certainly *Metamorphosis: Titian 2012*, which formed part of the Festival of Culture accompanying the London Olympics. The associated collaboration with the Royal Ballet and with leading poets was a new departure for the Gallery. The Gallery is very grateful to those staff who worked so hard to meet the unusual challenges of this exhibition and to make the collaboration such a success.

The following temporary exhibitions were open during the year. “(£)” denotes a ticketed exhibition:

Exhibition	Attendance	Venue
<i>Turner Inspired: In the Light of Claude</i> 14 March 2012 – 5 June 2012 (£)	57,766 (from 1 April 2012)	Sainsbury Wing
<i>Titian's Diana and Calisto</i> 1 March 2012 – 1 July 2012	74,624 (from 1 April 2012)	Room 1
<i>Titian's First Masterpiece: The Flight Into Egypt</i> 1 April 2012 – 19 August 2012	223,381	Sunley Room
<i>Metamorphosis: Titian 2012</i> 11 July 2012 – 23 September 2012	77,522	Sainsbury Wing
<i>Poussin: a masterpiece for the nation</i> 20 September 2012 – 11 November 2012	21,982	Room 1
<i>Richard Hamilton</i> 10 October 2012 – 13 January 2013	115,362	Sunley Room
<i>Seduced by Art: photography past and present</i> 31 October 2012 – 20 January 2013 (£)	48,327	Sainsbury Wing
<i>Through American Eyes: Frederic Church and the landscape oil sketch</i> 6 February 2013 – 28 April 2013	60,290 (to 31 March 2013)	Room 1
<i>Barocci: Brilliance and Grace</i> 27 February 2013 – 19 May 2013 (£)	14,812 (to 31 March 2013)	Sainsbury Wing

Turner Inspired: In the Light of Claude opened in March 2012 and examined Turner's experience of Claude's art, bringing together closely related paintings and works on paper by both artists, many of which share the same themes. It demonstrated the ways in which Claude's example became integral to Turner's way of representing the world, even underpinning the modernity of his later works. It also introduced visitors to the story of the Turner Bequest and its importance in the history of the National Gallery.

Titian's early works are exceptionally well represented in the Collection, as are those of his teacher Giovanni Bellini, his associate Giorgione and his rival Sebastiano del Piombo. *Titian's First Masterpiece: The Flight Into Egypt* assembled these paintings in the Sunley Room, adding a number of loans from British collections, and several from the State Hermitage Museum in St Petersburg, most notably the surprisingly large early canvas *The Flight into Egypt*, which Titian painted in about 1506–7, newly conserved and receiving its first public presentation here.

To celebrate the acquisition of Titian's *Diana and Callisto* early in 2012, a Room One exhibition, *Titian's Diana and Callisto* enabled the National Gallery's public to see the painting immediately in the context of its companions, *Diana and Actaeon*, together with the *Death of Actaeon*. The same three paintings were, in the summer of 2012, exhibited alongside works by three contemporary artists (Chris Ofili, Conrad Shawcross and Mark Wallinger) which demonstrated the enduring appeal not only of Titian's paintings but also of Ovid's poetry. Fourteen British poets, including Simon Armitage, Wendy Cope, Tony Harrison and Seamus Heaney were invited to respond to Titian's paintings and their poems published to accompany the exhibition.

In *Poussin: a masterpiece for the nation* the National Gallery was delighted to be able to display Poussin's *Extreme Unction* (one of the series of paintings of the Sacraments in the collection of the Duke of Rutland) in order to assist the Art Fund in its campaign to acquire the painting for the Fitzwilliam Museum Cambridge, successfully achieved.

When Richard Hamilton died at the age of 89 in September 2011 he was at work on an exhibition for the National Gallery. This highly personal exhibition was a masterful final statement of intent by one of the most influential British artists of the 20th century, and included a presentation of three large-scale variations on a work based on Balzac's short story, "Le Chef-d'oeuvre inconnu". Hamilton had close ties with the National Gallery throughout his career and many of his later works, as shown here, reflected the inspiration he took from the Gallery's collection of Old Masters, as well as his pioneering of innovative computer-generated techniques.

Seduced by Art: Photography Past and Present was the first major exhibition in Trafalgar Square ever devoted to the photograph and addressed photography's complicated relationship to painting. This ground-breaking exhibition explored the relationship between historical painting, early photography of the mid-19th century, and some of the most exciting work being done by photographers today. The exhibition included almost 90 photographs alongside selected paintings from the National Gallery's collection. In addition, exceptionally, three 'interventions' of contemporary photographs were juxtaposed with works in the Gallery's collection.

Through American Eyes: Frederic Church and the landscape oil sketch explored the remarkably fresh and spontaneous oil sketches of Frederic Church (1826–1900), considered by many to be the greatest American exponent of the landscape oil sketch. Regarded as one of the most ambitious of the Hudson River School landscape painters, his works reveal his voracious appetite for travel to locations as distant as Ecuador, Jamaica and Jordan. Works executed closer to Church's home on the Hudson River reflected his interest in the American landscape and his exploration of the effect of light.

Barocci: Brilliance and Grace was the first monographic exhibition of paintings and drawings by Federico Barocci (about 1533–1612) ever mounted outside Italy. Visitors were able to trace the genesis of Barocci's complex paintings through his tireless process of preparatory study, charting the transformation of his life studies, often in soft chalks and pastel. Many of Barocci's altarpieces and paintings remain in local churches and museums in Italy, and the exhibition offered an exceptional opportunity to see them.

Maintain and develop a coherent display of the collections

A number of new framing projects involving traditional and early frames, and adaptation of existing frames, were carried out to improve the appearance and appeal of pictures on display:

Rembrandt	Belshazzar's Feast	NG6350
Seisenegger	Portrait of a Girl	NG4206
Longhi	Rhinoceros	NG1101
Costa	A Concert	NG2486
Goya	Portrait	NG1951
Le Nain	Four Figures at Table	NG3879
Hals	Woman with Fan	NG2529
Swabian	Portrait	NG722
Antonello	Christ	NG673
Giordano	Perseus turning Phineas and his Followers to Stone	NG6487
Strozzi	Personification of Fame	NG6321
Harpignies	A River Scene	NG2256

Plans for the future

Increase the depth and range of our collections

The Gallery will continue to work with collectors to encourage new loans to extend the range of the collection. The Gallery will also work with donors and with collectors to seek to extend the range of acquisitions, including acquisitions of frames.

Maintain a full programme for conservation, supported by objective scientific study

It remains a fundamental responsibility of the Gallery to protect the collection for the very long term. To that end the Gallery will continue to maintain the highest standards of excellence in preventive and remedial conservation supported by pre-eminent scientific research.

Major conservation treatments continue on works by Veronese, Titian, Rembrandt, and Giovanni Martini da Udine, with the first two likely to be finished by the end of coming financial year. All of these treatment projects are closely tied to other wider Gallery activities; for example the Veronese and Rembrandt restorations are coordinated with major upcoming exhibitions to be held at the Gallery, with the latter painting the focus of renewed technical investigation as part of the genesis of the exhibition catalogue. The Titian restoration is also a key component of research for an upcoming dedicated issue of the Gallery's Technical Bulletin of that artist and his workshop, while the Giovanni Martini da Udine restoration is being undertaken in contact with the Getty Conservation Institute Panel Painting Initiative, an international programme dedicated to the improved dissemination of specialist panel conservation skills across Europe and North America.

Create public programmes that enhance and illuminate the collection

The Gallery will continue to develop the programme of imaginative summer exhibitions designed around the collection and will strengthen its programme of exhibitions and other public activities involving contemporary art.

Maintain and develop a coherent display of the collections

Installation of LED lighting throughout the main galleries will further enhance display, as will the restoration of original ceilings in Room 12. In addition, work will start to develop Gallery A as a space more congenial for the enjoyment of paintings and more convenient for teaching.

Broaden our appeal and provide an exceptional visitor experience²

Activities during the year

Strengthen public awareness of the National Gallery

Visitor trends proved harder to predict in 2012 due to the Olympics – a downturn in visits in the 2nd and 3rd quarters was not unexpected with increased security searches at entrances during the Games period. A strong 4th quarter – with a record attendance over the Easter period, helped boost numbers, and overall visits for the year were similar to last year. Trafalgar Square was host to a series of events over the summer months, and it was also a ‘live site’ for the Paralympics in September. In support of this, the Paralympic Agitos was displayed on the Gallery’s portico for the duration of the Games.

A diverse range of exhibitions, including a specially commissioned, ground breaking collaboration with the Royal Ballet, *Metamorphosis: Titian 2012* (11 July – 23 September 2012), a free exhibition, ran over the Olympic period and ensured that the National Gallery was central to the cultural celebrations and garnering wide critical acclaim. The exhibition exceeded the target attendance of 50,000 visits, attracting 77,552 visits (155% of target). As part of the London 2012 Festival, the exhibition was included in all festival communications. *Metamorphosis: Titian 2012* also provided the Press department with a great opportunity to reach new audiences and secure coverage in a wide range of publications (such as glossy monthly magazines) where the Gallery rarely – if ever – features. 45,142,851 people were reached by this coverage, with £1,329,670 being the cost of equivalent advertising space.

In the autumn the Gallery’s first photographic exhibition *Seduced by Art: Photography Past and Present* attracted new audiences. (45,326 paid admissions – 91% of budgeted target attendance and 48,327 visits in all – 97% of the target of 50,000). The exhibition had a strong marketing campaign with a distinctive image, *Man with Octopus Tattoo II* by Richard Learoyd that attracted younger audiences and admirers of photographic art. Again this exhibition also attracted new audiences via extensive coverage in photography and consumer media, with a strong online presence. 37,643,836 people were reached by this coverage, with £1,537,494 being the cost of equivalent advertising space.

The beautiful spring exhibition, *Barocci: Brilliance and Grace*, while critically acclaimed, appealed to more traditional audiences. The Art fund worked with us and promoted the exhibition across all its marketing platforms and resulted in Art Pass holders making 20% of visits, with seniors accounting for 31% of visits overall. The target attendance of 30,000 was exceeded, with 34,650 paid admissions – 116% of budgeted target, with 38,883 visits in total – 130% of target.

Also in 2013, *Turner Inspired: In the Light of Claude* was a particularly strong exhibition for the National Gallery in terms of gaining international coverage and reaching new global audiences. Attracting 73,454 admissions in all (98% of attendance target) with 67,406 paid admissions (90% of the budgeted target of 75,000). The exhibition was well covered by broadcast, print and online media in Germany, France, the Netherlands, Italy and Belgium, and there was also extensive coverage in Australia, Israel, Denmark. In China the Xinhua News Network Corporation showcased the exhibition to their 50 million worldwide viewers.

Plans for the future

Strengthen public awareness of the National Gallery

Plans to strengthen public awareness of the Gallery’s collection and programmes in the coming year include the development of compatibility of the website with smartphones, the development of the website to extend its public service and its commercial potential and the development of plans for a membership scheme.

² Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(b) and (d) that the Board shall “secure that the works of art are exhibited to the public” and “generally promote the public’s enjoyment and understanding of painting and other fine art both by means of the Board’s collection and by such other means as they consider appropriate”.

Integrate our approach to marketing, visitor services and programming and gain a better understanding of our visitors to offer an excellent and distinctive visitor experience

We will continue to extend our audience research with a view to deepening our understanding of our visitors, offering them an improved service and strengthening a more audience-focused approach to the planning of exhibitions.

Inspire learning and engagement³

Promote new ways of exploring the collection and learning about it

The National Gallery's first family festival, *Imaginary Worlds*, took place over half-term on in February 2013. Offering a variety of free and ticketed multidisciplinary art, music and storytelling events for families with children of all ages, the festival was an opportunity to showcase our programme and to explore innovative ways of engaging families with the Collection. Over two days we welcomed 3,274 visitors, half of whom were newcomers to the National Gallery.

Can historical paintings enhance understanding of contemporary social issues? What about sensitive subjects like unplanned pregnancy? The acquisition of Titian's *Diana and Callisto* provided the opportunity for the Schools team to devise a multi-partnership project to explore answers to these questions. With advice from the PSHE Association (Personal, Social, Health and Economic Education) the National Gallery worked in partnership with teachers and students from two Southwark Secondary schools over a six-month period. The painting provoked serious discussion about the reactions to Callisto's hidden pregnancy both in the classroom and in front of the original painting. Participants developed their thinking and imagination through the creative intervention of the poet Patience Agbabi (who contributed to *Metamorphosis: Poems Inspired by Titian*) and the artist, Marc Woodhead. The students' empathy for characters from the painting inspired them to create their own poems and enabled them to get to the core of the issues.

A critical success for the public programme in 2012 was the introduction of a new modular course, *Stories of Art*. This consists of four consecutive modules, each covering a specific period of the National Gallery's collection. In planning this course, there were two key objectives. The first was to use the Collection as a teaching resource in its widest possible sense, enabling participants to engage with the paintings individually and within specific contexts, as well as learning about the paintings from different viewpoints. The second was to encourage colleagues from across the Gallery to work together to deliver a high quality public engagement initiative. This in depth and high quality form of public engagement is central to the mission of the National Gallery, yet it has also proved to be a key source of income generation for public programmes.

Develop the Gallery as a centre of excellence for academic research

Curatorial research has concentrated on exhibitions work both for shows in the current year and for the longer-term programme until 2015 and beyond. The year has seen curators leading teams involving conservators and scientists working on several systematic schools catalogues, specifically: the 16th century Netherlandish School; 16th century paintings from Bologna and Ferrara; the German School and 19th century works of the Barbizon School and associated paintings. Curators, and other research-active staff, are also involved in advancing the Gallery's four principal research themes: 'The Meaning of Making'; 'Art and Religion'; 'Buying, Collecting and Display'; and 'Venetian Art and its History', and have involvement with a range of collaborative research ventures with Institutes of Higher Education (principally universities). A number of joint research projects have attracted Arts and Humanities Research Council (AHRC) or joint AHRC/Engineering and Physical Sciences Research Council (EPSRC) funding, both direct and indirect. Public outputs of a variety of types are planned for the majority of the Gallery's research efforts, one example of which is technical examination and analysis of four works by Vermeer (two from the National Gallery, one from English Heritage and the fourth from the Royal Collection) to be included in a didactic room of the Gallery's forthcoming Sainsbury Wing exhibition: 'Vermeer and Music', material that will also appear in fuller, highly illustrated form on the Gallery's Website.

The annual meeting of the Gallery's Scientific Consultative Group was held at the Gallery on 22 November 2012, with Professor Anya Hurlbert in the chair. Papers were presented in to a range of topics by members of the Gallery's Scientific Department. Volume 33 of the National Gallery Technical Bulletin was published in October 2012 and contains articles on early materials of painting (powdered glass as an additive), Niccolò di Pietro Gerini, Adolphe Monticelli, Renoir's *Umbrellas* and Edouard Vuillard; by agreement with the National Gallery Company, the on-line version, with additional material, appeared on the National Gallery Website in January 2013 with no

³ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(b), (c) and (d) that the Board shall "secure that the works of art are exhibited to the public", "secure that the works of art and documents are available to persons seeking to inspect them in connection with study and research" and "generally promote the public's enjoyment and understanding of painting and other fine art both by means of the Board's collection and by such other means as they consider appropriate".

download charge for readers. The next volume of the Technical Bulletin will concentrate on Titian's materials and painting practices before 1540, with a longer term plan to cover the later part of his career in a future publication.

The Scientific Department continued its full participation as a consortium member of a four-year pan-European project known as CHARISMA (Cultural Heritage Advanced Research Infrastructures: Synergy for a Multidisciplinary Approach to Conservation/Restoration; see www.charisma-project.eu), which brings together in a research partnership 21 museums, conservation institutes and scientific facilities in eleven European countries to advance best practices and new research in object-based heritage science (supported by the European Commission). The international academic conference: 'Leonardo da Vinci's Technical Practice: Paintings, Drawings and Influence' held at the Gallery in 2012 was one individual outcome of the CHARISMA project among many other research strands, workshops and publications with which the Gallery participated. The Leonardo Conference post-prints will be published by the Centre de Recherche et de Restauration des Musées de France (C2RMF) in Paris, National Gallery partners in CHARISMA.

Two further research partnerships with universities and others are in progress under the AHRC/EPSRC 'Science and Heritage Programme'. Several research topics are being pursued through the mechanism of Collaborative Doctoral Awards (CDAs; funded by the AHRC).

A technical research project on the works of Sir Joshua Reynolds is underway in partnership with the Wallace Collection (London), funded by the Mellon Centre for British Art; a special issue of the *Technical Bulletin* will be published in 2014 containing in addition comparative results from the Gallery's important group of painting by Reynolds. A project has been underway in 2012 on the market for paintings in London in the 18th century (in conjunction with the Getty Research Institute) and will continue in 2013 with a conference and publication.

In addition to collaborative investigatory work with curators and scientists on pictures undergoing conservation treatment, research in the Conservation Department has concentrated on environmental matters (control and monitoring) and best responses to possible chemical attacks on paintings while on display. Conservators are improving their technical knowledge of the behaviour and structural treatment of fragile or degraded panels, through in-house research and participation in the international Getty Panel Painting Initiative.

Plans for the future

Promote new ways of exploring the collection and learning about it

We will continue to develop new film content for the website, and options will be assessed for the implementation of WiFi to enable visitors to access online material within the Gallery.

Our schools programme will have an increasing focus on areas of deprivation and will continue to build its programme for secondary schools.

We will also extend our outreach activities for all ages.

Develop the Gallery as a centre of excellence for academic research

We will continue to advance our programme of publishing catalogues and making entries from those catalogues available online.

We will continue to develop plans for a research centre with a view to developing the Gallery's aspiration to become an international centre for the study of Old Masters Paintings.

Invest in our staff, increase income and care for our physical facilities⁴

Activities during the year

Invest in our staff

The Gallery encourages the continuous learning and development of its staff, and supports staff to consolidate and further develop their skills and knowledge through a variety of training and development initiatives, including supporting continuing vocational and professional development. The Gallery delivers a regular programme of in-house training covering a range of areas from job specific skills to general staff and management development.

⁴ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(a) that the Board shall "care for, preserve and add to the works of art and documents in their collection".

In 2012/13 this included:

- Training of the Visitor Services and Security team (389 delegates)
- The Gallery's induction programme (150 delegates)
- Health & Safety training (41 delegates)
- IT skills courses (54 delegates)
- Training in support of disaster preparedness (20 delegates)
- Personal effectiveness and interpersonal skills workshops (20 delegates)
- Management development workshops (25 delegates)
- Foreign language tuition (10 delegates)
- Vocational and continuing professional development (72 delegates)

Increase income

Income generation included securing a commercial sponsor for the Gallery's forthcoming Late Rembrandt exhibition and a generous donation from the Garfield Weston Foundation in support of the Gallery's Schools visits programme. The Development Office also renewed its major partnership with Credit Suisse.

Care for our physical facilities

In caring for and maintaining its physical estate, the Gallery makes an effort to implement energy efficiency technologies whenever it can. We have recently undertaken a complete replacement of our lighting within our galleries, in addition to moving to LED technology we have upgraded the system to allow dimming control, this enables the lighting to compliment the natural daylight via external blinds all controlled via the BMS. We are also replacing energy efficient lighting in other parts of the facility such as the Sainsbury Wing grand staircase, back-of-house corridors and in our restaurants to further reduce our carbon footprint.

The installation of a new combined heat and power plant unit has been completed and this now generates our own base load electrical requirements through the 850 Kw engine whilst the waste heat from the engine provides a substantial proportion of our heating requirements, thereby reducing demand on our existing boilers. This system saves the gallery around £27 per hour and is saving the gallery around 1440 tCO₂ per annum. We are currently undertaking a complete replacement of our ageing heating boilers over the next 2 years to further the efficiency of the system and distribution infrastructure.

Plans for the future

Invest in our staff

Our staff are at the heart of everything we do, from providing an excellent visitor service to preserving and protecting our collections. We aim to invest more in our staff over the coming years and in 2013-14 particular attention will be given to improving internal communications, and looking to strengthen performance management, alongside our on-going commitment to enhance well-being.

Increase income

We will work during the coming years to increase income from Gallery operations from a broader range of sources, particularly through building existing sources of charitable income, developing a membership scheme and reviewing other income-generating opportunities to maximise commercial income.

Care for our physical facilities

We will continue to develop and care for our physical estate and in the year ahead will focus particularly on managing the Gallery's external space to create a pleasant and hospitable environment and on advancing our carbon management plan through continued investment in energy efficient plant and technology.

DCMS Key performance indicators

Specific information relevant to the Gallery's contribution to DCMS's performance indicators for 2013 as set out in the Funding Agreement agreed with DCMS:

	Performance in 2013	Performance in 2012
1. Number of visits to the Gallery (excluding virtual visitors)	5.4m	5.4m
2. Number of unique users visiting the website	5.9m	6.5m
3. Number of visits by children under 16	0.2m	0.4m
4. Number of overseas visits	3.2m	3.1m
5. (a) Number of facilitated and self-directed visits to the Gallery by children under 16 in formal education	132k	141k
5. (b) Number of instances of children under 16 participating in on-site organised activities	16k	12k
6. % of visitors who would recommend a visit	99%	99%
7. Number of UK loan venues	35	35
8. (a) Self-generated income – admissions	£0.9m	£3.5m
8. (b) Self-generated income – trading	£3.3m	£4.1m
8. (c) Self-generated income – fundraising	£26.8m	£99.1m

The year to 31 March 2013 was very different to the prior year; 2012 was dominated by the extremely successful Leonardo exhibition as well as the fundraising for and purchase of Titan's *Diana and Callisto*. Attendance numbers in the summer of 2012 were lower than expected as a result of the London Olympics and related events in Trafalgar Square.

Financial Review

Financial position

The SOFA is set out on pages 28 – 31 of this document. Incoming resources for 2013 amounted to £57.5 million (2012: £134.1 million); total resources expended amounted to £31.7 million (2012: £34.8 million), resulting in net incoming resources (before unrealised investment gains and revaluations) of £25.8 million (2012: £99.3 million).

Incoming resources from generated funds for the year totalled £56.4 million (2012: £130.4 million). This figure includes incoming resources relating to picture acquisitions, Government Grant-in-Aid and other donations, legacies and income from corporate supporters. Incoming resources relating to picture acquisitions were largely attributable to a gift in kind element of £23.2 million, representing the donation of pictures by way of a legacy, £4.9 million under the Acceptance in Lieu of Tax Scheme and one direct legacy valued at £1.5 million. Incoming resources from charitable activities for the year totalled £1.0 million; the comparative figure of £3.7 million had been high due to the commercial success of the *Leonardo* exhibition in 2011/12.

The Gallery's total expenditure for the year was £31.7 million. Less was spent on exhibitions and preserving, enhancing and developing the potential of our collections compared with 2011/12 when costs were higher because of the *Leonardo* exhibition.

The net movement in funds for the year amounted to £37.3 million (2012: £93.1 million). The net movement includes any gain or loss on the value of the Gallery's land and buildings, any gain or loss on its investments and the value of donated works of art capitalised as collection acquisitions. This year the movement includes a surplus on revaluation of £10.5 million (2012: loss of £4.0 million) and investment gains of £1.3 million (2012: loss of £2.3 million).

In accordance with the Government Financial Reporting Manual (FRM) – which reflects the requirements of Financial Reporting Standard (FRS) 30 – works of art are capitalised and recognised in the Balance Sheet at their cost or value at the date of acquisition, where such a cost or value is reasonably obtainable.

The Trustees consider that the cost of valuing pictures in the collection, where cost or valuation information is not available but would be possible to obtain, would not be commensurate with any benefit that could be derived by the user of the financial statements from the inclusion of part of the collection on the Balance Sheet.

The treatment required by FRS 30 results in a partial capitalisation of heritage assets on the arbitrary basis of the date of acquisition. Trustees accept that under the terms of the Museums and Galleries Act 1992 they have no option but to comply with this accounting treatment, but remain very concerned that continuing to capitalise what will always be a very small portion of the collection will mislead readers of the accounts as to the nature and value of the collection as a whole. Further information on the nature and scale of the Gallery's collection can be found in note 13 and on the Gallery's website.

Details of the treatment of pension liabilities are disclosed in the Remuneration Report and the effect of the revaluation of land, buildings, and plant and machinery is disclosed in note 12. The National Gallery's auditors neither undertook nor received any remuneration for non-audit work during the year.

Fundraising and resources

Grant-in-Aid from the Department of Culture, Media and Sport (DCMS) amounted to £26.3 million for the year ended 31 March 2013. The Gallery generated additional income as a result of its exhibitions, educational activities and fundraising programme.

The Gallery's Development office focused on raising charitable income from individuals, grant making trusts and companies and on generating trading income through corporate sponsorship and membership. Charitable support, largely from individuals and grant making trusts, made an important contribution to the Gallery's operational activity and capital development. Our education work benefited significantly as a result of major donations and grants from individual donors and charitable trusts, including a generous donation from the Garfield Weston Foundation in support of the Gallery's schools programme.

The Gallery attracted private support for curatorial assistant posts, academic colloquia and the publication of catalogues. Charitable income also supported the work of the framing, scientific and conservation departments. In addition to funding day-to-day activities and capital projects, charitable income continued to be received for Titian's *Diana and Actaeon* acquired in 2009 and *Diana and Callisto* acquired in 2012. Legacy income was designated for future picture acquisitions.

On the commercial side, the Gallery's partnership with Credit Suisse continued to play a vital role in contributing to the Gallery's activities as a whole and in sponsoring *Metamorphosis: Titian 2012*. Income from the corporate membership scheme was robust.

Philanthropic support and corporate sponsorship continued to make an essential contribution to the Gallery's capacity to preserve, enhance and display its collection for public enjoyment. The Gallery remains indebted to every individual, trust and company for their support during the course of this year.

Investment policy

Scope of investment powers and power to delegate management of investments

The trustees, in respect of their general funds, including assets given to them without restriction by donors or testators, rely for their investment powers on the general power in section 2(6) of the Museums and Galleries Act 1992, which permits them to do such things as they may think necessary or expedient for the purpose of fulfilling their functions under the Act. This implies a wide power of investment. In respect of general funds, the Board may delegate investment decisions to a committee of the Board, under the powers in the 1992 Act, but have no power to delegate investment decisions to third parties.

Funds held on trust ('trust funds') are governed by a Charities Act Scheme varied by resolution of the Board in March 2013 to provide wide powers of investment similar to those available under the Trustee Act 2000. In respect of these funds, the Board has a power to delegate investment decisions to a committee of the Board and also has an express power to delegate the management of investments to financial experts, subject to the restrictions laid out in the Scheme.

Investment objectives

The Gallery's reserves policy sets out the level of general funds required to meet working capital needs and to provide a safeguard against volatile and unpredictable income streams. General funds are held with a view to maximising return within the constraint of ensuring adequate liquidity to meet working capital needs.

Trust funds represent funds held on trust for particular purposes. Some trust funds are expendable within the short-term, but many are not immediately expendable and some are permanent endowments, where the capital cannot be spent. To the extent that trust funds are not expendable over the medium term, these are invested with a view to maximising long-term total return.

Trust funds that may be expended over the short to medium term are invested with a view to maximising return whilst retaining appropriate levels of liquidity, subject to other constraints set out in this policy. Such trust funds are separately identifiable from general funds.

Attitude to risk

The trustees recognise that risk is part of the investment process. Trust funds held for the long-term are invested with a view to maximising total return over time and trustees accept the capital and market risks inherent in this type of investment. Capital and market risks are mitigated to some extent by diversification of investments, for example through the use of cash deposits for remaining funds.

All the Gallery's investments are held with institutions of the highest quality to combat counterparty risk. Funds may only be placed with a new institution with the approval of the Finance Committee.

Types of investment

Suitable investments include equities, bonds and cash deposits. The Gallery will not usually hold any derivative instruments, options, futures, forward contracts or foreign currency, except where there is a specific need for such an instrument or where it is held as part of a defined investment strategy.

Investment management

The Board delegates investment of trust funds to the Finance Committee. The Finance Committee monitors the performance of investments and ensures compliance with the investment policy. The Finance Committee considers the investment objectives annually and recommends any changes to the Board.

The Finance Committee is able to appoint investment managers, and where they choose to do so the performance of investment managers is reviewed at least annually and is reported to the Board.

Investments are measured against an appropriate benchmark. Equity investments are measured against a suitable index. The return on cash deposits is measured against the UK bank base rate.

Investment performance

The funds invested represent permanent endowments or restricted funds held for the longer term and are invested in a developed market equities total return fund. This approach was implemented at the end of the previous financial year following a significant reorganisation. The return on this fund during the financial year was 17.88%. The benchmark for this fund is the MCSIWorld Index, which returned 17.69% during the year ended 31 March 2013.

The Gallery holds other private funds in money market deposits and fixed rate interest accounts. Performance is measured against the UK bank base rate and in 2012-13 the fixed rate weighted average interest rate was 0.19% compared with the base rate of 0.5%.

Details on the movement of investments during the year can be found in note 14.

Reserves policy

The Gallery seeks to maintain unrestricted general funds not committed or invested in tangible fixed assets at a level equivalent to six-months' worth of non-guaranteed (i.e. non-contractual) income, as a safeguard against volatile and unpredictable income streams.

However, given that Grant-in-Aid is not drawn down in advance of need and that significant funds may be required for picture purchases, the level of unrestricted general funds may exceed this level at any point in time. Grant-in-Aid should not be held in reserves and will therefore normally be expended in the month it is received.

Restricted funds represent funds held for specific purposes as specified by the donor. These are separately recorded and invested until they can be expended in accordance with the restriction in place. Some restricted funds are held for the long-term due to the nature of the restriction.

Permanent endowments represent funds that cannot be expended. These are separately recorded and invested for the long-term in accordance with the investment policy.

The reserves policy is reviewed by the Audit Committee annually and where appropriate changes are made to reflect likely funding requirements in the coming year.

The aggregate value of reserves is £500.0 million. A breakdown of these is shown in the Balance Sheet and in the Statement of Funds (note 19). A significant proportion of the funds (£216.8 million) are represented by the Gallery's land and buildings, being the Trafalgar Square site, plant and machinery and equipment. These funds are therefore effectively inalienable. A further £268.6 million is represented by the value at the date of acquisition of donations to the collection and pictures acquired since 1 April 2001, and £1.4 million relates to funds restricted for future acquisitions.

Of the remaining £13.2 million, £5.6 million is in permanent endowments (where the capital cannot be touched) and £4.4 million represents other restricted funds. A further £1.7 million is private income (mainly from bequests), which, because of the nature of the income, the Trustees have designated for picture purchases. The remaining balance of £1.5 million represents undesignated general funds of private income, which the Audit Committee agreed at their meeting in March 2013 was an appropriate level to maintain, in accordance with this policy.

The trust funds of the National Gallery

The Trust Funds of the National Gallery are made up of a number of bequests, which were constituted as a pool for investment purposes by a scheme approved by the Secretary of State for Education and Science in 1972. The Trust Funds are controlled by the National Gallery Trustees and included within these financial statements.

Reference and Administrative Details

These accounts have been prepared in a form directed by the Secretary of State with the consent of Treasury in accordance with Sections 9(4) and 9(5) of the Museums and Galleries Act 1992, the Government's Financial Reporting Manual and the Accounting and Reporting by Charities: Statement of Recommended Practice (2005).

So far as the Accounting Officer and the Trustees are aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

History

The National Gallery was established in 1824 when Parliament voted £60,000 for the purchase, presentation and display of a group of 38 paintings, part of the collection of the late John Julius Angerstein.

Organisation

The Gallery is a Non-Departmental Public Body, whose sponsor department is the Department for Culture, Media and Sport (DCMS). The Gallery is exempt from the need to register with the Charity Commission.

Further information about trustees and senior management, together with information on structure, governance and management can be found in the Governance Report.

The principal address of the charity is:

The National Gallery
Trafalgar Square
London WC2N 5DN

The National Gallery website address is: www.nationalgallery.org.uk.

Advisors

Banking Services	Government Banking Service (GBS) Southern House 7 th Floor Wellesley Road Wellesley Croydon CR9 1WW	Coutts & Co. 440 Strand London WC2R 0QS
Auditors	The Comptroller and Auditor General National Audit Office 157-197 Buckingham Palace Road Victoria London SW1W 9SP	
Solicitors	Farrer & Co 66 Lincoln's Inn Fields London WC2A 3LH	Various other solicitors are used as required.
Investment Managers	BlackRock Investment Management (UK) Ltd 33 King William Street London EC4R 9AS	

Payment policy

The Gallery aims to settle all bills either within the period stated by the supplier or within 30 days. The year-end creditor day ratio was 42 days (2012: 43 days).

Equal opportunities

The Gallery is committed to equal opportunities for all job applicants and employees. The Gallery's policy is that no applicant or employee should receive less favourable treatment than another on grounds of gender

(including gender reassignment), sexual orientation, marital or family status, civil partnership status, race, colour, nationality, ethnic or national origins, religion or similar belief, disability, age or trade union membership or any other condition or requirement which cannot be shown to be justifiable.

This principle applies both to direct discrimination and to indirect discrimination (i.e. the Gallery is committed not only to avoiding direct discrimination but also to avoiding practices which have the incidental or accidental effect of discriminating unfairly against particular groups).

The Gallery recognises that the principle of equal opportunity applies to all recruitment; to all terms and conditions of service, including pay, hours of work, leave, retirement and pensions; and to human resources management and development including staff performance reviews, training and promotion. The Gallery aims, in this way, to provide a working environment which is free from unfair discrimination and from harassment. The Gallery's equal opportunity policy is drawn to the attention of all employees and job-applicants through the application process and is disclosed in the Staff Handbook.

Sickness absence management

The average number of days of employee absence due to sickness was 8.3 days (2012: 9.3 days). Excluding long term sickness, the average number of days of absence was 4.0 days (2012: 4.4 days).

Immunity from Seizure Report 2012-13

This report applies to the fourth successive year of the application of the legislation passed in 2007 (under Part 6 of the Tribunals, Courts and Enforcement Act 2007) to provide immunity from seizure for objects from abroad lent to temporary exhibitions. The National Gallery gained approval in 2008 to apply for protection for specific loans to exhibitions under the provisions of the Act.

The Gallery has continued to apply the necessary processes developed in the first year following its approval under the Act. These involve compiling details of provenance for each exhibition loan, researching and recording further information and carefully considering any gaps in provenance. Details of the objects requiring immunity from seizure together with details of the research undertaken are published on the National Gallery website at least four weeks and one day before the objects are imported into the UK.

Exhibitions including works for which protection under the legislation was sought during 2012-13 are as follows:

10 October 2012 – 13 January 2013
Richard Hamilton: The Late Work

27 February – 19 May 2013
Barocci: Brilliance and Grace

At the balance sheet date, no enquiries or claims had been received with respect to these objects under section 7 of the Protection of Cultural Objects on Loan (Publication and Provision of Information) Regulations 2008.

Sustainability report

Our sustainability aim is to save energy and reduce our carbon footprint. We are committed to integrating environmental considerations into our activities and working towards the goals of sustainable development and pollution prevention through a programme of continuous environmental improvement.

We have prepared this Sustainability Report in order to provide information on the plans we have in place for reducing carbon emissions. The report has been prepared in accordance with HM Treasury Public Sector Annual Reports: Sustainability Reporting.

Summary of performance

We have a fully documented Carbon Management Plan (<http://www.nationalgallery.org.uk/about-us/organisation/policies/carbon-management-plan>) and during 2012-13 we have undertaken a number of projects as set out in our plan, to improve sustainability and to lay the foundations for significant reductions in emissions in future years. These included:

- Replacement lighting in virtually all galleries using energy efficient LED bulbs
- Replacement lighting in back of house areas using energy efficient LED bulbs
- Installation of a Combined Heat and Power plant (CHP) that was commissioned and running from September 2012;

Our performance is summarised in the table below:

Area		2012-13 performance		2011-12 performance	
		Actual	Target	Actual	Target
Greenhouse Gas Emissions (Scopes 1, 2 & 3) tCO ₂		6,755	6,232	7,370	6,692
Estate energy	Consumption (million KWh)	22.4	–	20.8	–
	Expenditure (£ million)	0.97	–	1.2	–
Estate waste	Amount (tonnes)	746.5	–	770.6	–
	Expenditure (£'000)	54	–	54	–
Estate water	Consumption ('000 m ³)	35.9	–	36	–
	Expenditure (£'000)	72	–	64	–

Whilst total Greenhouse Gas Emissions (GHG) emissions were in excess of target, emissions were 8% lower than in 2011-12. It is anticipated that the installation of a combined heat and power unit during 2012-13 will reduce emissions in line with target over the coming years.

Summary of future strategy

Our Carbon Management Plan outlines our sustainability strategy and the specific measures we will take to reduce our carbon dioxide emissions by over 40% by 2015. The key strategy is to reduce greenhouse gas emissions through the installation of energy-efficient plant and equipment. Key projects for achieving this include the installation of a combined heat and power unit and the installation of energy-efficient LED lighting throughout the galleries.

Greenhouse Gas Emissions

The National Gallery's collection is predominately housed in a grade 1 listed nineteenth century building which accommodates over 5 million visitors a year. The nature of the collection is such that it requires carefully controlled environmental conditions, and most of our spaces are fully air-conditioned to best preserve the paintings. A high proportion of our carbon footprint is associated with the energy required to maintain the environmental conditions within the galleries.

Our Carbon Management Plan sets out the direction we are taking to reduce our GHG emissions. A fundamental strategy for reduction is the installation of a combined heat and power unit. This was constructed during 2011-12 and was installed and commissioned in September 2012. We have begun to realise the benefits of this energy saving plant in 2012-13 through a reduction in emissions. By March 2015 we anticipate the CHP unit will have

reduced emissions by 1,440 tCO₂, over half of our budgeted emissions over that period. The following table shows our GHG emissions in the last two financial years.

Greenhouse Gas Emissions		2012-13	2011-12
Non-financial indicators (tCO ₂ e) *	Total gross emissions	6,755	7,586
	Gross emissions Scope 1 (direct)	2,830	2,429
	Gross emissions Scope 2 (indirect)	3,867	5,101
	Gross emissions Scope 3 (indirect)	58	56
Related energy consumption (million KWh)	Electricity: non-renewable	7.4	9.8
	Electricity: renewable	3.6	-
	Gas	14.9	11.0
Financial indicators (£ million)	Expenditure on energy	0.97	1.2
	CRC License Expenditure	0.077	-
	Expenditure on accredited offsets	-	-
	Expenditure on official business travel	0.1	0.1

* 2012 Emission Factors used (Reference: DEFRA, Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting, 2012)

Waste

We aim to reduce waste and to ensure as much waste as possible is reused or recycled. Our performance with respect to waste can be seen in the following table:

Waste		2012-13	2011-12		
Non-financial indicators (tonnes)	Total waste	746.5	770.6		
	Hazardous waste	Total	-	-	
		Non-hazardous waste	Landfill	-	-
			Reused/recycled	450.8	475.8
			Composted	-	-
			Incinerated with energy recovery	295.7	294.8
Incinerated without energy recovery	-		-		
Financial indicators (£k)	Total disposal cost	54	54		

Use of resources

Finite resource consumption		2012-13	2011-12
Non-financial indicators ('000m ³)	Water consumption	35.9	36.0
Financial indicators (£k)	Water supply costs	72	64

Remuneration report

The figures in this report have been subject to audit.

The remuneration report includes salary and pension details of National Gallery staff defined as “directors” of functional areas. These members of staff are considered to constitute senior management, however executive authority over the decisions of the Gallery as a whole remains solely in the hands of the Director, guided by the Chairman and Board of Trustees. For the purposes of this report directors of functional areas are described as “senior managers”.

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2012: £nil).

Director’s remuneration and benefits

The salary and performance award details for the Director are as follows:

	2013		2012	
	Salary	Performance related pay	Salary	Performance related pay
	£	£	£	£
Nicholas Penny	140,000	–	140,000	–

Dr Penny is eligible for a performance-related bonus in the range of 0% to 20%. A bonus of 20% (2% consolidated) for 2012/13 (reflecting performance during the year to 31 March 2012) was offered and accepted shortly after the balance sheet date.

No provision is made within the Director’s contract for non-cash benefits and none were paid. The notice period of the Director is six months.

The Director’s performance-related bonus is determined by the Remuneration Committee. The Remuneration Committee (comprising Mark Getty, Caroline Thomson and Patricia Lankester during the year) reviews the Director’s performance annually, taking account of the achievement of the Gallery’s objectives as set out in the funding agreement between the Department for Culture, Media and Sport and the National Gallery.

The Director’s appointment is for an indefinite period. In accordance with the provisions of the nuvos occupational defined benefit pension scheme the Director may retire at 65. The Director’s contract of employment determines the circumstances in which a compensation payment may be made. The compensation provisions are no more advantageous than those set out in the Civil Service Compensation Scheme.

In 2012/13 a change was made to the senior team structure at the Gallery and new arrangements were put in place from 1 February 2013. Two of the directors left the Gallery at this point and Larry Keith took on a new role within the Gallery, reflected in the table below.

Senior managers' salary, performance award and benefits (including any compensation payments)

	2013 £'000	2012 £'000
Jillian Barker <i>Director of Education, Information and Access (until 31 January 2013)</i>	115 – 120¹	65 – 70
Susan Foister <i>Director of Public Engagement</i>	70 – 75	70 – 75
Larry Keith <i>Director of Conservation (until 31 January 2013)</i>	50 – 55²	55 – 60
Gregory Perry <i>Director of Operations and Administration (until 31 December 2012)</i>	80 – 85³	70 – 75
Ashok Roy <i>Director of Collections</i>	75 – 80	70 – 75
Sarah Ward <i>Director of Public Affairs and Development (until 31 January 2013)</i>	70 – 75⁴	80 – 85

¹ Full year equivalent is £65,000 – £70,000. The total payment shown in the table above includes £55,000 of compensation payments, of which £21,000 was ex gratia.

² Full year equivalent is £55,000 – £60,000.

³ Full year equivalent is £70,000 – £75,000.

⁴ Full year equivalent is £80,000 – £85,000.

The Gallery's remuneration policy applies to all staff, including senior management. Members of staff are paid according to the nature of the role they perform and each job is graded and included in a salary band. There are ten salary bands and the senior managers covered by this report are all in salary band one.

No provision is made within the contracts of the above individuals for non-cash benefits, and there is no entitlement to performance-related awards. None of the individuals mentioned above received any benefits in kind nor any bonus. The notice period for the above individuals is three months. The appointment of the above individuals is for an indefinite period and the compensation provisions are no more advantageous than those set out in the Civil Service Compensation Scheme.

Andrew Young was engaged as an interim Director of Operations and Administration from October 2012 to March 2013, through an agency. Payments to the agency for the year to 31 March 2013 amounted to £96,524 (2011-12: £nil).

Pensions

The Director's pension is covered by the same scheme as other employees. His contract is for no fixed term, in common with other members of staff at the Gallery.

The accrued pension and lump sum payments as at 31 March 2013 for senior managers and the Director are as follows:

Pension	Accrued pension at pension age as at 31 March 2013 and related lump sum £'000	Real increase (decrease) in pension and related lump sum at pension age £'000	CETV at 31 March 2013 £'000	CETV at 31 March 2012 £'000	Real increase (decrease) in CETV ^a £'000
Nicholas Penny	100 – 105	2.5 – 5	1,693	1,508	50
Jillian Barker	5 – 10	0 – 2.5	72	51	14
Susan Foister	30 – 35	0 – 2.5	660	595	25
	plus 90 – 95 lump sum	plus 2.5 – 5 lump sum			
Larry Keith	15 – 20	0 – 2.5	300	278	7
	plus 45 – 50 lump sum	plus 0 – 2.5 lump sum			
Gregory Perry	5 – 10	0 – 2.5	71	53	13
Ashok Roy	35 – 40	0 – 2.5	812	763	43
	plus 75 – 80 lump sum	plus 0 – 2.5 lump sum			
Sarah Ward	5 – 10	0 – 2.5	126	102	18

^a Taking account of inflation, the CETV funded by the employer may have decreased in real terms.

Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include an additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Calculation of Pay Differentials

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The remuneration of the highest-paid director at the National Gallery in 2012-13 was £140,000 (2011-12: £140,000). This was 7.95 times (2011-12: 8.09 times) the median remuneration of the workforce, which was £17,600 (2011-12: £17,300).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

In 2010-11 the Gallery entered into the civil service pay freeze, which resulted in a two year freeze for those earning £21,000 or above. The salary of the highest paid director has been frozen since 2008, and a 1% cost of living pay award was made to staff during the year. These factors have had the effect in raising the year-on-year median remuneration level.

Signed:
Nicholas Penny
Director and Accounting Officer

Dated: 17 July 2013

Signed:
Gautam Dalal
On behalf of the Board of Trustees

Dated: 17 July 2013

Statement of Trustees' and Director's responsibilities

Under the Section 9(4) of the Museums and Galleries Act 1992 the Secretary of State for Culture, Olympics, Media and Sport, with the consent of the Treasury has directed the National Gallery to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the National Gallery and of its incoming and outgoing resources, changes in funds and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction⁵ issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Secretary of State for Culture, Olympics, Media and Sport has designated the Director as Accounting Officer of the National Gallery. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the National Gallery's assets, are set out in *Managing Public Money* published by HM Treasury.

Signed:
Nicholas Penny
Director and Accounting Officer

Dated: 17 July 2013

Signed:
Gautam Dalal
On behalf of the Board of Trustees

Dated: 17 July 2013

⁵ a copy of which is available from the National Gallery, Trafalgar Square, London, WC2N 5DN.

Governance Statement

This statement sets out the Gallery's corporate governance and risk management framework, which provides the structure within which resources are managed and controlled.

Governance framework

The Gallery is governed by the Museums and Galleries Act 1992, under which a body corporate known as the Board of Trustees of the National Gallery was established. The Charities Act 2011 confirms the charitable status of the Board of Trustees of the National Gallery and its exemption from the need to register with the Charity Commission. Both acts can be viewed at www.legislation.gov.uk.

The Gallery is governed by a Board of Trustees. The establishment, constitution, functions and property of the Board of Trustees can be found in Section 1 to the Museums and Galleries Act 1992. The general functions of the Board of Trustees can be found in Section 2 to the Museums and Galleries Act 1992.

The Gallery has no less than 12 and no more than 14 Trustees at any time. All Trustees except one are appointed by the Prime Minister, currently for a period of four years with the possibility of renewal. In addition, Tate appoints one Trustee from its own Board. The following is a list of the Trustees of the National Gallery during the year to 31 March 2013, together with a summary of their attendance at meetings during the year. In the year to 31 March 2013, there were six regular Board meetings and one extraordinary meeting

	Attendance at Board meetings
Mr Mark Getty (Chairman)	5/7
Professor David Ekserdjian	6/7
Ms Patricia Lankester	5/7
Lady Heseltine	6/7
Mr Michael Hintze	3/7
Ms Caroline Thomson	6/7
Ms Hannah Rothschild	5/7
Mr Gautam Dalal	7/7
Professor Anya Hurlbert	6/7
Mr John Nelson	7/7
Mr Lance Batchelor	4/7
Mr Dexter Dalwood	6/7
Mr John Singer (appointed 25 June 2012)	5/6
Mr Charles Sebag-Montefiore (appointed 25 June 2012)	6/6

The Chairman of the Board is responsible for approving adequate arrangements for induction and training for new Board members. New trustees are:

- given the Trustee Handbook, which sets out the structure, role and responsibilities of the Board, and includes detailed information about standards, accountability and governance, including the Code of Best Practice for individual Trustees, and the Board's Conflicts of Interest Policy;
- given copies of the latest Corporate Plan, Funding Agreement, Annual Review and Financial Statements and key strategy documents; and
- given the equivalent of about 2 days' worth of induction, meeting members of the senior management team to learn about the work of the Gallery.

The Gallery follows governance best practice for public service and charitable bodies, and insofar as it applies, the Gallery complies with the principles of the *Corporate governance in central government departments: code of good practice 2011*.

The Board has a Code of Best Practice for individual Trustees, which sets out the responsibilities of individual trustees and also the Board's Conflicts of Interest Policy. This provides that Trustees must avoid conflicts of interest wherever possible; discuss any difficulty with the Chairman; agree the right course of action; and record the decision. Actual or potential conflicts of interest are formally identified at the start of each meeting of the Board and the manner in which the conflict is dealt with is minuted.

The Board maintains a Register of Trustees' Interests which is updated twice a year and is reviewed once a year by the Board's Audit committee. The Register is available for inspection on application to the Secretary to the Board.

The Board of Trustees usually meets formally 6 times a year (although in the year to 31 March 2013 it met 7 times) and copies of Board minutes are published on the Gallery's website. Attendance at Board meetings during the year by those eligible to attend has averaged 80%, slightly down on the attendance levels of 88% in the previous year. The lower attendance is partly accounted for by the need to call an extraordinary meeting on relatively short notice. If attendance figures for that meeting are ignored, then attendance levels would average 83%.

The Board collectively is responsible for the Gallery's statements of values, aims and strategy; statements of required governance, procedures, standards and structures; specific decisions which are not delegated to the Executive and the holding of management to account for implementation and performance.

The Board delegates operational responsibility to the Director within an agreed framework. The Director and Accounting Officer as at 31 March 2013 is Dr Nicholas Penny. The Accounting Officer is responsible for accounting to Parliament, DCMS, the Board of Trustees and other stakeholders. The Accounting Officer has personal responsibility for ensuring propriety and regularity in the management of public funds and for the day-to-day management of the National Gallery.

The Director has appointed a number of senior staff to act as executive directors of certain functional areas. These individuals are considered senior managers for the purposes of the Remuneration Report. The individuals defined as senior managers at some point during the year ended 31 March 2013 were:

Jillian Barker
Susan Foister
Larry Keith
Gregory Perry
Ashok Roy
Sarah Ward
Andrew Young

Senior management take decisions through the mechanism of an Executive Committee, whose members are responsible for the main departments in the Gallery. Management communicates with staff through meetings, the intranet, e-mail and staff notices. The three unions representing a number of members of staff meet regularly with senior management.

Committees of the Board

The Board delegates some of its responsibilities to committees. The remit and structure of committees operating during the year is set out below:

Committee	Key responsibilities	Membership	Number of meetings attended	Number of meetings eligible to attend
Audit	To support the Board and Accounting Officer in their responsibilities for issues of risk, control and governance, by reviewing the reliability and integrity of assurances provided.	Gautam Dalal (Chair)	4	4
		Mark Getty	2	4
		John Singer (from 19 July 2012)		
		Nick Land*	2	3
		Sir Colin Southgate*	2	4
Finance	To support the Board and Accounting Officer in their responsibilities for effective financial management of the Gallery and to invest funds in the National Gallery's Trust Funds Pool	Gautam Dalal (Chair)	4	4
		Mark Getty	2	4
		John Singer (from 19 July 2012)	2	3
		Nick Land*	2	4
		Sir Colin Southgate*	3	4
Nominations	To manage the process of appointments to the Board in accordance with the OCPA Code to ensure that the Board has the skills it requires to achieve its objectives	Mark Getty (Chair)	0	1
		David Ekserdjian	1	1
		Hannah Rothschild	1	1
		Anne Heseltine	1	1
			1	1
Remuneration	To advise the Board on the terms of appointment for the Director and on his remuneration	Mark Getty Patricia Lankester Caroline Thomson	n/a	n/a

*Independent committee members

The Committees of the Board reported the following key achievements and findings to the Board during the year:

The remit of the Nominations committee was changed during the year to reflect changes to the OCPA Code. At the start of the year there were two existing vacancies on the Board and a recommendation for appointment had been made to the Prime Minister. Two appointments were made in June 2012 and at the end of the year there were no vacancies on the Board.

During the course of the year the Remuneration committee and Board discussed the Director's performance for the year to 31 March 2013, but deferred any formal meeting to discuss the Director's pay, pending the settlement of the pay award for other staff. Shortly after the end of the year the Remuneration committee met formally to consider the Director's pay, and recommended to the Board a performance related bonus for the year reflecting the Director's performance in the year to 31 March 2013. This recommendation was approved by the Board.

The Audit committee provided assurance to the Board in the form of its Annual Report, which covered the work of external and internal auditors during the year as well as the overall risk management framework. The Audit committee also reported to the Board during the year and of particular note was the monitoring of on-going improvements in security, and the commitment to improvement in management processes such as performance management.

The Finance committee has monitored the finances of the Gallery during the year and in particular the measures being put in place to deal with changes to funding. The committee recommended the adoption of the budget set out within the corporate plan for 2013-14 and also recommended to the board the payment of a grant to the National Gallery Trust to further the charitable objects of the Gallery. This recommendation was adopted by the Board at its meeting in March 2013. The Corporate Plan was reviewed and approved by the Board in March 2013.

Effectiveness of the Board

The Board reviewed its own effectiveness in September 2012. Board members were asked to rate the board's effectiveness by responding to questions relating to the following areas namely: vision, mission and strategy; management of meetings; board relationships and leadership; relationships with staff; committees of the Board; and induction, training and succession. In relation to all these areas, the Board overall rated effectiveness highly or very highly. As a result of the board effectiveness survey the Board identified additional areas which they would wish to have regularly reported to them at Board meetings; they asked to review the Gallery's policy on loans out; and they suggested additional matters to cover during Trustee induction.

In relation to the quality of information provided to the Board, as part of the review of Board Effectiveness the Board members were specifically asked if they felt adequately briefed before board meetings and if the Board cycle covered all matters of importance to the Gallery, and agreed with both statements. The quality of information provided is of a high standard and is subject to continuing review and improvement.

Risk Management

The National Gallery recognises that the effective management of risk and uncertainty is core to its ability to achieve its objectives.

The Board of Trustees (assisted by the Audit Committee) sets risk management standards and the degree of risk aversion for the Gallery, and reviews the major risks to the Gallery.

The Accounting Officer is responsible for managing risk and ensuring an effective system of internal control is in place. The Accounting Officer places assurance on the work of the Internal Controls Committee, an executive committee which meets 4 times a year to review actively the risk environment, to monitor the adequacy of controls and to assess emerging risks. The Internal Controls Committee uses a comprehensive risk register as a tool for managing risk, and recommends areas for internal audit based on the analysis of risks in the register. The Internal Controls Committee also reviews and is informed by the work of Internal Audit. The minutes of the Internal Controls Committee, together with its assessment of key risks, are reviewed by the Audit Committee at each meeting.

Areas of risk focused on by the Internal Controls Committee during the year included continued enhancement of elements of the Gallery's security and fire safety with consideration being made of best practice and developing strategy.

The financial risk arising from the continued pressure on public sector expenditure and uncertainty over future reductions in Grant-in-Aid was also a key focus area. Further action was taken to ensure the budgeting process was conducted to maintain a downward pressure on costs and a review of income generation activities.

The committee reviewed its policy on ethical fund-raising and agreed that the Gallery cannot accept absolutely anonymous donations and at the very least the Director, Chairman and Head of Development must know the identity of the potential donor.

Further areas of risk reviewed included information management with five key areas being considered: access, security, integrity of data, continuity and appropriate publication of information. It was agreed that wider access should be granted to the risk register, with all heads of department and those with responsibility for risk areas being able to access key parts of the register via the intranet. The Audit Committee approved this project to be undertaken within the next year.

The recommendations following an Internal Audit report on lost property have all been implemented.

There was an Internal Audit review of performance management in the year and improvements to training were introduced to include linking staff objectives to the strategic framework for 2013/14.

An Internal Audit review of internal communications was conducted and the Executive Committee has put in place a plan to deliver the improvements recommended.

Internal Audit's primary role is to give the Accounting Officer and the Trustees an independent and objective opinion on the Gallery's risk management, internal control and governance. Internal Audit issues an Annual Report to the Accounting Officer, which is reviewed by the Accounting Officer and the Audit Committee and which includes Internal Audit's opinion of risk management in the Gallery and a Statement of Assurance on Internal Control.

The Audit Committee provides an annual report to the Board, which includes its opinion on the comprehensiveness, reliability and integrity of assurances received for the purpose of supporting the Board in their overall management of risk. The Audit Committee is of the opinion that the Gallery is responding appropriately to the risks around certain management processes and the documentation of controls.

All Budget Holders provide the Accounting Officer with annual Assurance Statements, and these are subject to Internal Audit review.

Risk assessment

The Accounting Officer and Board of Trustees consider the framework of internal controls and risk management to be effective, although they acknowledge weaknesses were identified during the year relating to certain management processes and the documentation of controls. The internal auditor's assurance to the Accounting Officer and the Audit Committee on the National Galley's risk management, control and governance processes was limited only on the basis of the issues mentioned above. Audit recommendations have been accepted and corrective action has been implemented.

The Gallery is going through a period of considerable change. This will result in a smaller and more efficient Executive Team. However, during the process of change there was unfortunately some lack of continuity in the technical advice available to the Accounting Officer and the need to obtain HM Treasury approval for a severance payment was not picked up until the year end audit. A full professional services team with greater experience in the public sector has been formed and should ensure that any similar cases in future are identified at an early stage and appropriate controls are in operation.

The Gallery has suffered no protected personal data incident during 2012-13 and has made no report on such a loss to the Information Commissioner's office.

Signed:
Nicholas Penny
Director and Accounting Officer

Dated: 17 July 2013

Signed:
Gautam Dalal
On behalf of the Board of Trustees

Dated: 17 July 2013

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the National Gallery for the year ended 31 March 2013 under the Museums and Galleries Act 1992. The financial statements comprise: the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board of Trustees, Accounting Officer and auditor

As explained more fully in the Statement of Trustees' and Director's Responsibilities, the Trustees and the Director as Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Museums and Galleries Act 1992. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Gallery's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Gallery; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the incoming resources and the resources expended recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the incoming resources and the resources expended recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the National Gallery's affairs as at 31 March 2013 and of its incoming resources and resources expended for the year then ended; and
- the financial statements have been properly prepared in accordance with the Museums and Galleries Act 1992 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued by the Secretary of State for Culture, Media and Sport under the Museums and Galleries Act 1992; and
- the information given in the Objectives and Activities, Financial Review, Reference and Administrative Details, Sustainability Report and Governance Statement included within the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

18 July 2013

Balance Sheet as at 31 March 2013

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Fixed Assets					
Tangible Assets	12	216,782		206,507	
Heritage Assets	13	268,558		243,339	
Investments	14a	<u>9,308</u>		<u>7,189</u>	
			494,648		457,035
Current Assets					
Stock		4		4	
Debtors	15	4,700		2,842	
Investments	14b	–		16,774	
Cash at bank and in hand	21	<u>6,389</u>		<u>36,944</u>	
		11,093		56,564	
Creditors					
Amounts falling due within one year	16a	<u>(5,446)</u>		<u>(50,336)</u>	
Provisions					
Amounts falling due within one year	16b	<u>(21)</u>		<u>(120)</u>	
Net current assets			5,626		6,108
Total assets less current liabilities			500,274		463,143
Creditors:					
Amounts falling due in more than one year	16a		<u>(277)</u>		<u>(461)</u>
Net assets			499,997		462,682
Represented by:					
Restricted funds					
Restricted funds (excluding revaluation reserves)		456,802		430,862	
Revaluation reserves		<u>34,379</u>		<u>23,844</u>	
	19		491,181		454,706
Unrestricted funds					
Designated		1,707		1,649	
Designated funds already expended on acquisitions		–		–	
General funds		<u>1,529</u>		<u>1,527</u>	
	19		3,236		3,176
Total Income Funds			494,417		457,882
Capital funds – permanent endowments	19		5,580		4,800
Total Funds			499,997		462,682

The notes on pages 32 to 51 form part of these accounts.

Signed:
Nicholas Penny
Director and Accounting Officer

Dated: 17 July 2013

Signed:
Gautam Dalal
On behalf of the Board of Trustees

Dated: 17 July 2013

Cash Flow Statement for the year ended 31 March 2013

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	21a		1,312		33,524
Returns on investment and servicing of finance					
Bank interest received		54		63	
Investment income		157		602	
			211		665
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(3,522)		(5,199)	
Payments to acquire heritage assets		(44,491)		(12,093)	
Purchase of investments		(842)		(18,105)	
Proceeds from sales of investments		3		17,685	
			(48,852)		(17,712)
			(47,329)		16,477
Management of liquid resources	21b		16,774		2,333
Increase/(decrease) in cash for the year	21c		(30,555)		18,810

The notes on pages 32 to 51 form part of these accounts.

Notes to the Financial Statements

1. Accounting policies

a. Accounting convention

The financial statements have been prepared under the historic cost convention, as modified by the revaluation of certain fixed assets and the inclusion of the investments at market value. The financial statements have been prepared in accordance with the accounts direction issued by the Secretary of State, the Accounting and Reporting by Charities: Statement of Recommended Practice (SORP), published in October 2005, the Government's Financial Reporting Manual and applicable accounting standards.

Investments are stated at market value rather than at historic cost. Any unrealised gains or losses arising from this policy are disclosed in the Statement of Financial Activities (SOFA).

b. Incoming resources

All incoming resources are included in the SOFA when the Gallery is legally entitled to the income and the amount can be quantified with reasonable accuracy.

The Grant-in-Aid from the Department for Culture, Media and Sport is taken to the SOFA in the year in which it is received. Lottery income is recognised as income when the conditions for its receipt have been met. Other grants, donations and legacies are recognised as incoming resources when the Gallery becomes entitled to the income, there is certainty of receipt and the amount is quantifiable.

Gifts in kind intended for use by the Gallery are recognised in the SOFA as incoming resources at a reasonable estimate of their current value on receipt. Contractual income is recognised as incoming resources to the extent that the Gallery has provided the associated goods or services; income from the corporate membership programme, for example, is recognised over the period of membership. Where income is received in advance, and the Gallery does not have entitlement to these resources until the goods or services have been provided, the income is deferred in the accounts.

Income derived from endowments has been included within unrestricted funds in the SOFA, except where the application of the income is restricted to a particular purpose, in which case the income and expenditure has been appropriately identified in restricted funds. See note 19 for further details.

c. Resources expended

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category, including an apportionment of overhead and support costs. The allocation of these support costs, including overheads, is analysed in note 8.

Fundraising costs are those incurred in seeking voluntary contributions and do not include the costs of disseminating information in support of the charitable activities. Exhibitions costs represent the costs of mounting exhibitions. Other direct costs are allocated against the relevant strategic objectives of the Gallery, which are described in detail in the Annual Report.

Governance costs include the costs of providing the governance infrastructure that allows the Gallery to operate, as well as the costs of the strategic planning processes that contribute to the Gallery's future development. These costs include the costs of statutory and internal audit, as well as an apportionment of support costs.

Liabilities are recognised where legal or constructive obligations mean that it is more likely than not that a transfer of economic benefits will be made.

Irrecoverable VAT is apportioned across the activity cost categories detailed in note 8.

d. Fund accounting

General funds are unrestricted funds which are available for use at the discretion of the Trustees in furtherance of the general objectives of the Gallery and which have not been designated for other purposes.

Designated funds comprise unrestricted funds that have been set aside by the Trustees for particular purposes. The funds include bequests made to the Gallery where it was clearly the wish of the donor that the money is to be used for picture purchase but where no legal restriction exists as to the use made of the bequest. The details of each designated fund are disclosed in note 19.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor. The aim and use of restricted funds is explained in note 19.

Permanent endowment funds are funds which the donor has stated are to be held as capital.

e. Tangible fixed assets

Tangible fixed assets, other than collection acquisitions, are accounted for using modified historic cost accounting. However, adjustments to the net book value are only made where material. The Gallery applies a £5,000 threshold to the capitalisation of all fixed assets (2012: £5,000).

Depreciation is provided on all tangible assets, other than collection acquisitions, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life:

Freehold buildings	75 years
Plant and machinery	30 years
Equipment	4 years
Collection acquisitions	Not depreciated

As the useful economic life of the freehold buildings asset class exceeds 50 years, an impairment review is performed in accordance with FRS 11 at the end of each reporting period, to compare the carrying amount of the fixed asset with its depreciated replacement cost value.

Depreciation is charged on capital costs in the year in which the asset is brought into use. Collection acquisitions are capitalised at historic cost and are not depreciated or revalued as a matter of routine.

Land and buildings and plant and machinery are revalued annually on a depreciated replacement cost basis. Movements are taken to the revaluation reserve.

f. Heritage assets

The National Gallery's collection comprises pictures and frames, and these are treated as heritage assets.

In accordance with the Government Financial Reporting Manual (FRM) – which reflects the requirements of Financial Reporting Standard (FRS) 30 – works of art acquired or donated are capitalised and recognised in the Balance Sheet at their cost or value at the date of acquisition, where such a cost or value is reasonably obtainable.

Additions to the collection are made by purchase, gift of the asset and/or the purchase of assets funded by donation. Works of art donated by third parties either by gift of the asset, or by way of funds for the asset, are capitalised and accounted for through the donated works of art reserve.

Capitalised heritage assets are not subject to depreciation or revaluation as a matter of routine.

The Trustees of the National Gallery believe that the collection is unusual as an asset in many ways. It is inalienable, unique, irreplaceable, ancient, fragile and very valuable. In this regard, it is an asset that cannot be valued in a way that would be meaningful for readers of the financial statements.

The Trustees consider that even if valuations could be obtained for some of the pictures in the collection, the cost of performing such an exercise would not be commensurate with any benefit that could be derived by the user of the financial statements from the inclusion of part of the collection on the Balance Sheet. As a result, no value has been included in the Balance Sheet for heritage assets acquired before April 2001, the point at which additions to the collection were first capitalised.

The treatment required by FRS 30 results in a partial capitalisation of heritage assets on the arbitrary basis of the date of acquisition. The distorting effect of this inconsistent treatment is exacerbated by the volatility of the international art market and fluctuations in inflation, which will render the value of those capitalised heritage assets less reliable over time. Trustees accept that under the terms of the Museums and Galleries Act 1992 they have no option but to comply with this accounting treatment, but remain very concerned that continuing to capitalise what will always be a very small portion of the collection will mislead readers of the accounts as to the nature and value of the collection as a whole.

Further information on the nature and scale of the Gallery's collection can be found in note 13.

Expenditure which is required to preserve or prevent further deterioration of individual collection items, as well as the costs of managing the collection, are recognised in the Statement of Financial Activities when incurred. More information about preservation and management of the collection can be found in note 13.

g. Investments

Investments held as fixed assets are included at market value at the year-end. The SOFA includes any realised and unrealised investment gains and losses arising on revaluation and disposals throughout the year.

Cash in deposits with a maturity of more than 24 hours, except cash held specifically as part of the investment portfolio or for investment purposes, is treated as a current asset investment.

h. Stocks

Tangible stocks are held by the Gallery for use in the staff canteen. Stocks for the gift shops situated within the Gallery premises are owned by the National Gallery Company Limited which is a separate legal entity and therefore not consolidated in these accounts. The café and restaurant facilities are also franchised out. Stocks are stated at the lower of cost or net realisable value.

i. Leases

The National Gallery has no finance leases. Costs in relation to operating leases are charged to the SOFA over the life of the lease.

j. Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All exchange differences are taken to the SOFA.

k. Pensions

Staff of the National Gallery are employed under broadly the same conditions of service as Civil Servants, to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. Full details of the pension scheme are included in note 11.

l. Trust funds

These funds represent amounts which have been bequeathed to the Gallery mainly for the purposes of picture acquisition. Income earned on the capital held in restricted funds is recognised in the SOFA as it arises. Any unutilised income together with the capital is held in a separate restricted fund which can only be used for the purposes originally specified by the donor.

m. Taxation

The Gallery is eligible under s.505 of the Income and Corporation Taxes Act 1988 to seek from HMRC exemption from taxes on income arising from the pursuit of its charitable objectives. HMRC has granted this exemption.

2. Grant-in-Aid

	2013	2012
	£'000	£'000
Department for Culture, Media and Sport	<u>26,320</u>	<u>26,744</u>

This money is available for running costs, capital improvements and collection purchases. Of the total figure, £3.8 million (2012: £3.8 million) was ring-fenced for capital purposes.

3. Other government grants

	2013	2012
	£'000	£'000
EU Charisma project	77	–
Arts Council	–	2
Museums, Libraries and Archives Council	<u>–</u>	<u>5</u>

4. Donations

	2013	2012
	£'000	£'000
Donations relating to Gallery activities excluding acquisitions can be split as follows:		
Individuals	521	230
Trusts and foundations	1,124	1,348
Gifts in kind	33	14
	<u>1,678</u>	<u>1,592</u>

Restricted donations included above total £1,601k (2012: £1,401k).

	2013	2012
	£'000	£'000
Donations relating to capitalised collection acquisitions can be split as follows:		
Individuals	21	302
Trusts and foundations	109	21,124
Gifts in kind	23,228	71,257
Other		4,357
	<u>23,358</u>	<u>97,040</u>
Total donations	<u>25,036</u>	<u>98,632</u>

5. Activities for generating funds and other incoming resources

	2013	2012
	£'000	£'000
<i>Activities for generating funds</i>		
Trading	2,064	2,725
Concessions	579	899
Miscellaneous	472	328
	<u>3,115</u>	<u>3,952</u>
<i>Other incoming resources</i>		
Gain on disposal of equipment	<u>3</u>	<u>–</u>

Trading income includes royalties, venue hire, floor plan sales, exhibition sponsorship and the corporate membership programme.

6. Investment Income

	2013	2012
	£'000	£'000
Bank interest receivable	54	63
Interest receivable on UK investment portfolio deposits	–	131
Other UK fixed interest stocks	–	93
UK equities	–	331
Foreign equities	157	47
	<u>211</u>	<u>665</u>

7. Trustees' remuneration

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2012: £nil). The total value of expenses reimbursed to Trustees amounted to £25 for the year (2012: £377), representing travel and catering expenses for 1 Trustee (2012: 1 Trustee).

8. Total resources expended

	Direct costs £'000	Support costs £'000	Depreciation £'000	Total 2013 £'000	Total 2012 (restated) £'000
Fundraising costs	1,041	135	–	1,176	1,158
Investment management costs	<u>41</u>	<u>–</u>	<u>–</u>	41	<u>81</u>
	1,082	135	–	1,217	1,239
Exhibitions	2,211	229	344	2,784	3,064
Broaden our appeal and provide an exceptional visitor experience	8,456	745	1,297	10,498	10,617
Preserve, enhance and develop the potential of our collections	4,971	508	772	6,251	9,515
Inspire learning and engagement	2,696	347	429	3,472	3,612
Invest in our staff, increase income and care for our physical activities	5,875	289	868	7,032	6,286
	<u>24,209</u>	<u>2,118</u>	<u>3,710</u>	30,037	<u>33,094</u>
Governance costs	<u>221</u>	<u>20</u>	<u>–</u>	241	<u>303</u>
	<u>25,512</u>	<u>2,273</u>	<u>3,710</u>	31,495	<u>34,636</u>

A breakdown of support costs, and a description of the basis on which these costs have been allocated to each of the activity cost categories, is set out below:

Cost type	Fundraising costs	Exhibitions	Appeal and visitor experience	Preserve, enhance and develop	Learning and engagement	Staff and physical facilities	Governance	Total	Basis of allocation
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Finance	12	91	29	136	40	251	5	564	Direct expenditure of activity
Human Resources	28	31	553	85	70	10	3	780	Headcount
Information Services	77	87	132	233	192	23	10	754	Headcount of office-based staff
Office Services	<u>18</u>	<u>20</u>	<u>31</u>	<u>54</u>	<u>45</u>	<u>5</u>	<u>2</u>	175	Headcount of office-based staff
	<u>135</u>	<u>229</u>	<u>745</u>	<u>508</u>	<u>347</u>	<u>289</u>	<u>20</u>	2,273	

Analysis of governance costs:

	2013 £'000	2012 £'000
Staff costs	108	120
Auditor's remuneration	38	38
Internal audit fees	23	27
Cost of meetings	4	2
Operational consultants	4	69
Support costs	20	13
Legal fees	44	34
Other	<u>–</u>	<u>–</u>
	241	303

Total resources expended include the following:

	2013	2012
	£	£
Auditor's remuneration:		
Statutory audit	37,500	37,500
Leased rental payments on equipment and office space	449,189	358,090
Provision for voluntary exit costs	20,752	120,133
Loss on disposal of tangible fixed asset	–	2,148

The National Gallery's auditors neither undertook nor received any remuneration for non-audit work during the year.

Total resources expended also include a grant to the National Gallery Trust of £2.0m for the furtherance of the National Gallery's charitable objectives (2012: £4.7m).

9. Staff costs

	2013	2012
	£'000	£'000
Wages and salaries	11,881	12,333
Social security costs	815	865
Pension costs	1,887	1,974
Agency staff	538	127
	<u>15,121</u>	<u>15,299</u>

The total number of employees, including the Director, whose remuneration as defined for taxation purposes amounted to over £60,000 in the year, was:

	2013	2012
	No.	No.
£60,000 – £69,999	3	2
£70,000 – £79,999	4	5
£80,000 – £89,999	–	1
£140,000 – £149,999	1	1
	<u>8</u>	<u>9</u>

All of the employees earning more than £60,000 participated in the Principal Civil Service Pension Scheme (PCSPS) pension schemes.

The average number of employees during the year, analysed by function was:

	2013	2013	2013	2012
	Permanent	Other	Total	Total
	contracts	contracts	contracts	Total
	No.	No.	No.	No.
Fundraising	15	4	19	20
Exhibitions	3	–	3	4
Broaden our appeal and provide an exceptional visitor experience	234	36	270	280
Preserve, enhance and develop the potential of our collections	47	4	51	56
Inspire learning and engagement	29	17	46	49
Invest in our staff, increase income and care for our physical facilities	6	2	8	6
Support	21	10	31	27
Governance	1	–	1	1
	<u>356</u>	<u>73</u>	<u>429</u>	<u>443</u>

Further information relating to the Director's and senior managers' pay can be found in the Remuneration Report.

10. Compensation payments

The exit packages reported are for exit packages agreed for staff that left between April 2012 and March 2013. This included staff that left on Voluntary Exit, Voluntary Redundancy and Compulsory Redundancy terms.

Exit package cost band	2013		2013	2012	
	Compulsory	Departures	Total cost	Departures	Total cost of
	redundancies	agreed under	of exit	agreed under	exit packages
	No.	Voluntary Exit	packages	Voluntary Exit	by cost band
		No.	by cost band		
			£		£
< £10,000	–	–	–	5	32,378
£10,000 – £25,000	2	1	52,123	5	98,766
£25,000 – £50,000	–	1	35,453	6	192,721
£50,000 – £100,000	–	3	179,169	4	248,175
Total number of exit packages	<u>2</u>	<u>5</u>	<u>266,745</u>	<u>20</u>	<u>572,040</u>

Departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Where the organisation has agreed early retirements, the additional costs are met by the organisation and not by the Civil Service pension scheme. Ill health retirement costs are met by the pension scheme and are not included in the table.

11. Pension costs

Staff of the National Gallery are employed under broadly the same conditions of service as Civil Servants, to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply.

All present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS).

The PCSPS is an unfunded multi-employer defined benefit scheme. The National Gallery is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2013, employer's contributions of £1,865,903 were payable to the PCSPS (2012: £1,941,321) at one of four rates in the range 16.7% to 24.3% of pensionable pay (2012: 16.7% to 24.3%) based on salary bands. There were no adjustments to employer's contributions for staff that had left the Gallery's employment in a previous period (2012: £12,158). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

From 2013/14, the rates will again be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2013/14 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £19,426 (2012: £18,957) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,300 (2012: £1,255), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £1,627 (2012: £1,449).

Further information relating to the Director's and senior managers' pay can be found in the Remuneration Report.

12. Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Assets in the course of construction £'000	Equipment £'000	Total £'000
Cost or valuation					
As at 1 April 2012	150,454	68,387	–	3,693	222,534
Donated works of art	–	–	–	–	–
Additions	1,213	2,099	110	28	3,450
Transfers	–	–	–	–	–
Disposals	–	–	–	(132)	(132)
Revaluation	4,585	5,950	–	–	10,535
Transfers	–	–	–	–	–
As at 31 March 2013	<u>156,252</u>	<u>76,436</u>	<u>110</u>	<u>3,589</u>	<u>236,387</u>
Depreciation					
As at 1 April 2012	4,254	8,487	–	3,286	16,027
Disposals	–	–	–	(132)	(132)
Charge for year	1,098	2,349	–	263	3,710
Revaluation	–	–	–	–	–
As at 31 March 2013	<u>5,352</u>	<u>10,836</u>	<u>–</u>	<u>3,417</u>	<u>19,605</u>
Net book value					
31 March 2013	<u>150,900</u>	<u>65,600</u>	<u>110</u>	<u>172</u>	<u>216,782</u>
31 March 2012	<u>146,200</u>	<u>59,900</u>	<u>–</u>	<u>407</u>	<u>206,507</u>

The freehold of the National Gallery, including both the Wilkins Building and the Sainsbury Wing, was transferred from the Secretary of State for the Environment and the Crown to the Trustees of the Gallery on 12 January 1994. In accordance with Treasury requirements, land and buildings and plant and machinery were valued on a depreciated replacement cost basis at 31 March 2013. This basis is used rather than market value or value-in-use because the building and plant are considered to be specialist in nature. The desktop valuation was performed by BNP Paribas Real Estate, an independent firm of Chartered Surveyors, in accordance with the RICS Appraisal and Valuation Manual (the Red Book).

The financial effect of revaluing other assets (excluding plant and machinery) was considered to be insignificant in terms of the overall net book value and therefore they have been disclosed at their historic cost value.

The Trustees consider the building to be effectively inalienable; it would not be possible to realise its value. The net book value at 31 March 2013 represents fixed assets held for charitable purposes only.

13. Heritage assets

The National Gallery houses one of the greatest collections of Western European painting in the world. These pictures belong to the public and entrance to see them is free. The Gallery aims to tell the story of European painting as completely as possible and at the highest possible level. The collection contains over 2,300 works, including many iconic masterpieces such as van Eyck's *Arnolfini Portrait*, Piero della Francesca's *Baptism*, Holbein's *Ambassadors*, Leonardo's *Virgin of the Rocks*, Vermeer's *Young Woman Standing at a Virginal*, Velázquez's *Rokeby Venus*, Turner's *Fighting Temeraire* and Van Gogh's *Sunflowers*. The work of some of the greatest painters, including Raphael, Titian, Rembrandt, Monet and Cezanne, is represented in great depth, with a range of works of varying types and from different periods of the artists' careers.

A full description of the collection, including zoomable images of every picture, can be found on the National Gallery's website.

Heritage assets capitalised in the Balance Sheet are shown below:

	Cost £'000	Valuation £'000	Total £'000
As at 1 April 2012	3,423	239,916	243,339
Additions	491	24,728	25,219
As at 31 March 2013	<u>3,914</u>	<u>264,644</u>	<u>268,558</u>

All heritage assets acquired since 1 April 2001 have been included in the Balance Sheet at their cost or value at the date of acquisition.

Where heritage assets have been acquired under the Acceptance in Lieu Scheme, valuations are provided by the Arts Council England. Where pictures have been donated, bequeathed or acquired other than on the open market, valuations have been performed by the Gallery's curators, who are recognised experts in their fields, or by external valuers. The primary method of valuation involves the analysis of recent market values for comparable works, together with a detailed technical assessment of the painting's physical condition to arrive at a reasonable valuation. However, there is an inherent limitation to valuation of works acquired by the National Gallery, simply because by their nature they are usually unique and iconic works of art for which little or no comparable market data exists.

Additions in 2013 comprise:

- A collection of 25 Baroque paintings from the estate of Sir Denis Mahon, transferred into the National Gallery's collection by the Art Fund. The paintings include works by Luca Giordano, Ludovico Carracci, Guercino, Domenichino and Guido Reni, and were already on long-term loan to the Gallery. These paintings have been included in the accounts at a value of £18,350,000.
- Guercino's *The Presentation of Jesus in the Temple* bequeathed to the Gallery directly by Sir Denis Mahon. This has been included in the accounts at a value of £1,500,000.
- Richard Parkes Bonington's *La Ferté*, Jean-Baptiste-Camille Corot's *Italian Woman, or Woman with Yellow Sleeve (L'Italianne)* and Guercino's *Samian Sibyl with a Putto* which were accepted by H. M. Government in lieu of Inheritance Tax and allocated to the National Gallery. These paintings have been included in the accounts at a valuation made by Arts Council England of £4,878,000.
- Franz Anton Maulbertsch's *Allegory of the Continent of Asia* was purchased at a cost of £339,000.
- 15 frames for various pictures at an aggregate cost of £152,000.

Five year financial summary of acquisitions

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Donated assets and acquisitions funded by donations	24,728	106,198	(235)	1,413	45,743
Other acquisitions	491	4,392	357	349	11,863
Total cost/value of acquisitions	<u>25,219</u>	<u>110,590</u>	<u>122</u>	<u>1,762</u>	<u>57,606</u>

Significant additions over the last five years include:

- Titan's *Diana and Callisto*, acquired jointly with the National Galleries of Scotland in 2012, is the companion painting of *Diana and Actaeon* which was acquired in 2009, also as a joint acquisition with the National Galleries of Scotland. The two works join the already rich collection of Titian masterpieces at the National Gallery, establishing it as a world centre for the study of Venetian Renaissance painting.
- *A Still Life of Flowers in a Wan-Li Vase* by Ambrosius Bosschaert the Elder, one of the first and finest Dutch flower painters, received through the Acceptance in Lieu scheme in 2010.

Heritage assets not capitalised on the Balance Sheet

The proportion of the collection not capitalised on the Balance Sheet is set out below:

	Total number of items	Number capitalised	% capitalised	Number not capitalised	% not capitalised
Pictures	2,346	62	3%	2,284	97%

The vast majority of the Gallery's collection is not capitalised. The nature and scale of the collection can be viewed in detail on the Gallery's website.

Heritage asset management

Acquisitions

The acquisition of pictures and frames is one of the Gallery's statutory objectives. Acquisitions are essential to enhance the collection now and for future generations. In particular, acquisitions enable the Gallery to develop its presentation of the history of Western European painting.

The Gallery's principal aims in making acquisitions are as follows:

- to obtain masterpieces of outstanding quality;
- to develop the Gallery's uniquely coherent narrative of Western European painting beyond the canon established during the 19th century; and
- to build on the Gallery's strengths.

All acquisitions, whether by purchase or donation, require the approval of the Board of Trustees. Prior to approval, potential acquisitions are subject to detailed checks concerning the ownership, provenance, condition and value of the picture, taking into account guidelines published by the Department of Culture, Media and Sport (*Combating Illicit Trade: due diligence guidelines for museums, libraries and archives on collecting and borrowing cultural material*).

Preservation

The most effective strategy for preservation is the application of principles of preventive conservation, largely achieved through environmental and light control. These principles are the subject of research and refinement and are specified by the Scientific and Conservation departments working with the Gallery's engineers. In addition to conservation treatments, the Conservation department's work includes assessment of the collection, preventive maintenance and minor treatment such as blister laying, surface cleaning and re-varnishing. Except in an emergency, all proposals for major conservation work including cleaning are referred to the Board, both for permission to begin and on completion, for approval of the work done and for the painting's return to exhibition. All minor work is discussed with and agreed by the relevant curator.

Detailed information on the Gallery's preservation policies can be found in the Conservation Risk Management Statement and Preventive Conservation Risk Management Statement on the Gallery's website.

Management

The Gallery's collection comprises 2,436 paintings and approximately 2,414 frames. As at 31 March 2013 1,012 (43%) paintings were on public display at the Gallery, 90 (4%) on loan elsewhere and the remainder were in the conservation and photographic studios or in storage.

The National Gallery is committed to the widest possible access to the collection which it houses, conserves and displays. Details of the policy adopted by the Gallery to provide access can be found in the Access Statement on the Gallery's website.

The Museum System (TMS), a sophisticated collections management system, is used by a number of departments to catalogue the collection and to manage acquisitions, location recording, exhibitions and loans. Location recording in TMS is a core part of the processes involved in moving paintings within and into and out of the National Gallery. This is supported by daily inventory checks of the public display galleries and regular checks of other areas where pictures may be stored.

Disposals

The Trustees of the Gallery have a statutory responsibility to hold and maintain the collection of pictures in trust for future generations in accordance with the Gallery's charitable objectives. The Trustees are not empowered to dispose of any pictures: the collection is inalienable. Any disposal of an item in the collection could only be made by transfer to another national collection in accordance with the provisions of the Museums and Galleries Act 1992.

14. Investments**a. Fixed asset investments**

	2013	2012
	£'000	£'000
Market value as at 1 April	7,189	25,775
Increase in investment portfolio deposits	(982)	12,120
<i>Listed investments</i>		
Disposal proceeds	–	(17,685)
Additions at cost	1,824	5,984
Realised and unrealised (losses)/gains	1,277	(2,272)
Transfer to current asset investments	–	(16,733)
Market value as at 31 March	<u>9,308</u>	<u>7,189</u>

All investments are listed on a recognised stock exchange and are analysed as follows:

	2013	2012
	£'000	£'000
<i>Listed investments</i>		
UK fixed interest stocks	–	–
UK equities	–	–
Overseas equities	<u>9,256</u>	<u>6,038</u>
	9,256	6,038
<i>Cash held as part of the investment portfolio</i>		
UK investment portfolio deposits	<u>52</u>	<u>1,151</u>
	<u>9,308</u>	<u>7,189</u>

b. Current asset investments

	2013	2012
	£'000	£'000
Current asset investments	<u>–</u>	<u>16,774</u>
Movement in the year		
Market value at beginning of year	16,774	2,374
Liquidated in year	(16,774)	
Transfer from fixed assets investments		16,733
Reduction of balances on money market	<u>–</u>	<u>(2,333)</u>

Current asset investments comprising cash in deposits with a maturity of more than 24 hours, except cash held specifically as part of the investment portfolio or for investment purposes, is treated as a current asset investment.

15. Debtors

	2013	2012
	£'000	£'000
Amounts falling due within one year		
Trade debtors	466	236
Other debtors	2,777	85
Tax and social security	749	603
Prepayments and accrued income	<u>708</u>	<u>1,918</u>
	<u>4,700</u>	<u>2,842</u>

Included in debtors are:

	Amounts falling due within one year	
	2013 £'000	2012 £'000
Balances with Central Government bodies	816	729
Balances with local authorities	–	–
Balances with NHS Trusts	–	–
Subtotal: intra-Government balances	816	729
Balances with bodies external to Government	3,884	2,113
Total debtors at 31 March	4,700	2,842

16. Creditors

a. Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	1,935	2,365
Other creditors	2,601	47,173
Accruals and deferred income	910	798
	5,446	50,336

In 2012, other creditors included £44m paid in April 2012 for the acquisition of Titian's *Diana and Actaeon*.

	2013 £'000	2012 £'000
Amounts falling due in more than one year		
Other creditors	–	–
Accruals and deferred income	277	461
	277	461
In more than one year but not more than two years	69	127
In more than two years but not more than five years	208	334
In more than five years, payable by instalments	–	–
	277	461

The movement on the deferred income account in the year was as follows:

	2013 £'000	2012 £'000
As at 1 April	988	5,064
Amounts released from previous years	(642)	(4,507)
Incoming resources deferred in the current year	568	431
As at 31 March	914	988

Deferred income released during the year related to acquisitions where the transactions were completed during the year. Income deferred in the year includes grants restricted to future activities, as well as corporate membership and exhibition sponsorship income.

b. Provisions: amounts falling due within one year

The movement on the provisions account in the year was as follows:

	2013	2012
	£'000	£'000
As at 1 April	120	546
Charged in the year	21	120
Released in the year	(120)	(546)
As at 31 March	21	120

A provision of £21k (2012: £120k) has been made for voluntary redundancy costs to be paid within one year. The provision is based on a number of identified posts where post-holders are expected to leave under the voluntary redundancy scheme during 2013-14. The provision has been calculated in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972.

Included in creditors are:

	Amounts falling due within one year		Amounts falling due in more than one year	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Balances with Central Government bodies	283	304	-	-
Balances with local authorities	-	-	-	-
Subtotal: intra-Government balances	283	304	-	-
Balances with bodies external to government	5,163	50,032	277	461
Total creditors at 31 March	5,446	50,336	277	461

17. Financial risk management

FRS 29 requires disclosure of the role financial instruments have had during the period in creating or changing the risks the Gallery faces in undertaking its activities.

Credit risk

The Gallery's credit risk arises from investments, cash deposits with banks, trade and other debtors. Cash is held by the Gallery's bankers. The Gallery has not suffered any loss in relation to cash held by bankers.

The Gallery is exposed to credit risk of £0.5 million (2012: £0.2 million) of trade debtors. This risk is not considered significant as major customers are familiar to the Gallery. The Gallery's debtor profile is reviewed regularly to ensure that prompt action is taken, and a provision is made at the end of the year against any debts considered doubtful. Write offs in the year for bad debts amounted to £nil (2012: £nil).

Liquidity risk

Grant-in-Aid from the Department for Culture, Media and Sport represents 47% (2012: 20%) of the Gallery's incoming resources before transfers and revaluations. Whilst the percentage was lower in 2012, this was because of the value of income for the acquisition of *Diana and Callisto*.

Exposure to liquidity risk amounts to £9 million (2012: £6 million) of equity investments. The Gallery's investments are monitored by a sub-committee of the Board which meets regularly to consider liquidity requirements over the medium term and review fund performance in discussion with the fund managers.

*Market risk***a. Interest rate risk**

The reserves and investment policies of the Gallery are outlined in the Financial Review section of this document. Interest income is 0.4% of the Gallery's incoming resources before transfers and revaluations, so the interest rate is not considered to be a significant risk for the Gallery.

The Gallery is exposed to interest rate risk on its interest bearing deposits. The Gallery's interest rate policy seeks to minimise interest volatility by using fixed-rate deposits where possible.

The interest rate profile of the Gallery's financial assets is set out below:

	Total £'000	Non- interest bearing assets held £'000	Floating- rate cash held £'000	Fixed rate short term cash deposits held £'000	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Days
At 31 March 2013	15,697	9,260	6,437	–	0.19%	n/a
At 31 March 2012	60,907	17,829	40,697	2,381	0.61%	145

The interest receivable on the floating rate deposits is at a variable rate as determined by the Gallery's bank, Coutts & Co and the rates on cash held in the cash liquidity fund administered by the Gallery's investment managers.

b. Price risk

The Gallery's comprehensive annual budget reflects anticipated levels of income for the year. It is reviewed and agreed by the Executive Committee, and incorporated in a corporate plan which is reviewed and approved by Trustees.

Costs of supplies purchased are subject to contracts with suppliers, the structure of which vary; for example some are based on current market prices, others are at agreed fixed prices. The Gallery's exposure to equity securities price risk is monitored by a sub-committee of the Board, as described in the investment policy above. The Gallery does not hold any derivative instruments, options, futures, forward contracts or foreign currency, except where there is a specific need for such instrument, as outlined below, or where it is held as part of the investment strategy.

c. Foreign currency risk

At the end of the year £9 million of investments were held in a US dollar denominated equity fund. There was therefore some exposure to foreign exchange fluctuations however, given the value compared to the overall net assets, this is not considered to be significant enough to require a sensitivity analysis.

Financial assets and liabilities

The Gallery's financial assets and liabilities by category, as defined in FR-S25, are set out below:

	Loans and receivables £'000	Available- for-sale £'000	Other financial liabilities £'000
At 31 March 2013			
Cash	6,389	–	–
Current asset investments	–	–	–
Trade and other debtors	3,400	–	–
Investments	–	9,308	–
Trade and other creditors	–	–	(4,381)
	9,789	9,308	(4,381)
At 31 March 2012			
Cash	36,944	–	–
Current asset investments	16,774	–	–
Trade and other debtors	1,702	–	–
Investments	–	7,189	–
Trade and other creditors	–	–	(49,364)
	55,420	7,189	(49,364)

18. Financial Commitments

Capital Commitments

Capital expenditure commitments were as follows:	2013 £'000	2012 £'000
Contracted for, but not provided in the accounts	–	–

Commitments under operating leases

As at 31 March 2013 the National Gallery had annual commitments under operating leases for photocopiers and rent payable as set out below:

	2013 £'000	2012 £'000
Operating leases which expire:		
Within 1 year	–	5
Between 2 and 5 years	<u>466</u>	<u>459</u>

19. Statement of funds

	At 1 April 2012 £'000	Income £'000	Expendi- ture £'000	Net movement on invest- ments and re- valuation £'000	Transfers between reserves £'000	At 31 March 2013 £'000
Unrestricted funds						
Designated funds:						
Designated funds for the purchase of heritage assets	–	–	–	–	1,477	1,477
Designated funds for the purchase of Guercino's <i>Cumaen Sybil with Putto</i>	–	–	–	–	–	–
Trust funds designated for the purchase of heritage assets	1,649	48	(14)	24	(1,477)	230
Total designated funds	1,649	48	(14)	24	–	1,707
General funds	1,527	26,813	(26,577)	–	(234)	1,529
Total unrestricted funds	3,176	26,861	(26,591)	24	(234)	3,236
Restricted income funds						
Capital assets reserve	182,663	3,462	(3,710)	–	–	182,415
Building revaluation reserve	679	–	–	4,585	–	5,264
Plant and machinery revaluation reserve	23,165	–	–	5,950	–	29,115
Donated works of art reserve	220,853	24,803	–	–	–	245,656
Heritage assets acquired	22,486	395	–	–	96	22,977
Exhibitions programme fund	123	639	(561)	–	(10)	191
Running cost fund	295	1,000	(818)	–	(6)	471
Curatorial fund	1,512	43	–	–	–	1,555
Collection purchases fund	–	147	–	–	–	147
Collection purchases trust fund	1,137	61	(15)	176	(96)	1,263
Art historical research	1,793	49	(12)	297	–	2,127
Total restricted income funds	454,706	30,599	(5,116)	11,008	(16)	491,181
Capital funds						
Collection purchase endowments	2,630	–	–	427	–	3,057
Art historical research endowment	893	–	–	145	–	1,038
General purpose endowments	1,277	–	–	208	–	1,485
	–	–	–	–	–	–
Total capital funds	4,800	–	–	780	–	5,580
Total funds	462,682	57,460	(31,707)	11,812	(250)	499,997

Transfers between reserves in the year

Transfers between unrestricted and restricted funds represent income received or recognised in the year where the relevant expenditure had been incurred and allocated against unrestricted funds in earlier years.

Transfers out of General Funds reflect a revised treatment in relation to income from our Corporate Partnership programme.

Transfers within restricted funds reflect the allocation of appropriate restricted funds to the cost of purchasing heritage assets in the year.

Fair Value Reserve (Investments)

	As at 1 April 2012 £'000	Unrealised gains under fair value £'000	Realised gains/ (losses) under fair value £'000	As at 31 March 2013 £'000	Reserve/ Fund net of fair value as at 31 March 2013 £'000	Reserve/ Fund (inc fair value) as at 31 March 2013 £'000
Unrestricted						
Trust funds designated collection purchases	669	24	–	693	(463)	230
Restricted						
Collection purchases trust fund	151	115	62	328	935	1,263
Art historical research	81	248	49	378	1,749	2,127
	<u>232</u>	<u>363</u>	<u>111</u>	<u>706</u>	<u>2,684</u>	3,390
Capital funds						
Collection purchase endowments	20	427	–	447	2,610	3,057
Art historical research endowment	7	145	–	152	886	1,038
General purpose endowments	9	199	–	208	1,277	1,485
	<u>36</u>	<u>771</u>	<u>–</u>	<u>807</u>	<u>4,773</u>	5,580
	<u>937</u>	<u>1,158</u>	<u>111</u>	<u>2,206</u>	<u>6,994</u>	9,200

Analysis of funds

The Statement of Funds at 31 March 2013 comprises a number of individual funds which divide into distinct categories as defined below:

Unrestricted Funds

- Trust funds designated for the purchase of heritage assets comprise funds, mainly bequests, designated for the acquisition of works of art for the collection and held within the Trust Funds.
- General funds are funds applied for general use.

Restricted funds

- Capital assets reserve comprises funds in respect of the Gallery's land, buildings and plant and machinery.
- Revaluation reserves reflect the effect of revaluations of tangible fixed assets over time.
- The donated works of art reserve represents the value of works of art donated to the collection either by gift or by way of funds for acquisition subsequent to 1 April 2001 and capitalised.
- Heritage assets acquired represents the value of works of art acquired from unrestricted or designated funds. These are treated as restricted on acquisition because the collection is inalienable.
- Exhibitions programme reserve comprises funds raised specifically towards the financing of the Gallery's exhibition programme.
- Running cost funds are funds raised specifically for the financing of other Gallery projects, including educational projects.
- Curatorial funds are funds raised specifically for the financing of curatorial activities, including the funding of certain curatorial posts.
- The collection purchases trust fund comprises donations, mostly bequests, received specifically towards the acquisition of works of art for the collection and held within the Trust Funds.
- Art historical research represents funds raised specifically towards the financing of curatorial research into the collection and held within the Trust Funds.

Capital funds

- Collection purchase endowments comprise funds donated where the income may be applied only to collection purchases, while any capital growth must be retained in the endowment.

- Art historical research endowment represents funds donated where the income may be applied only towards the cost of research into the collection, while any capital growth must be retained in the endowment.
- General purpose endowments comprise funds donated where the income may be applied to general expenditure, while any capital growth must be retained in the endowment.

20. Analysis of net assets between funds

	Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment £'000	Total Funds 2013 £'000	Total Funds 2012 £'000
Tangible assets	–	216,782	–	216,782	206,507
Heritage assets	–	268,558	–	268,558	243,339
Investments	239	3,489	5,580	9,308	7,189
Other net assets/(liabilities)	2,997	2,352	–	5,349	5,647
Total net assets	<u>3,236</u>	<u>491,181</u>	<u>5,580</u>	<u>499,997</u>	<u>462,682</u>

21. Notes to the cash flow statement

a. Net cash inflow from operating activities

	2013 £'000	2012 £'000
Net incoming resources before transfers and other recognised gains and losses	25,503	99,347
Investment income	(211)	(665)
Donated collection acquisitions	(24,728)	(71,257)
Depreciation charge	3,710	3,813
Loss/(profit) on sale of fixed assets	(3)	2
(Increase)/decrease in debtors	(1,857)	2,846
(Decrease in creditors	(1,102)	(561)
Increase in stocks	–	(1)
Net cash inflow from operating activities	<u>1,312</u>	<u>33,524</u>

b. Management of liquid resources

	2013 £'000	2012 £'000
Decrease in liquid investment portfolio deposits held as fixed assets	–	16,733
Decrease/(increase) in liquid investment portfolio deposits held as current assets	16,774	(14,400)
Management of liquid resources	<u>16,774</u>	<u>2,333</u>

Liquid resources comprise cash in deposits with a maturity of more than 24 hours, except cash held specifically as part of the investment portfolio or for investment purposes.

c. Reconciliation of net cash flow to movement in net funds

	2013 £'000	2012 £'000
Increase/(decrease) in cash in the year	(30,555)	18,810
Cash balance at beginning of year	36,944	18,134
Cash balance at end of year	<u>6,389</u>	<u>36,944</u>

d. Composition of the cash balance at the end of the year

	2013	2012
	£'000	£'000
Balance with Government Banking Services	956	2,341
Balances held with commercial banks	5,430	34,602
Cash in hand	3	1
Cash balance at end of year	<u>6,389</u>	<u>36,944</u>

22. Related Party Transactions

The National Gallery is a Non-Departmental Public Body whose sponsor department is the Department for Culture, Media and Sport (DCMS). DCMS is regarded as a related party. During the year, the National Gallery has had various material transactions with DCMS and with other entities for which DCMS is regarded as the parent department.

The Gallery considers the National Gallery Trust, the NGT Foundation and the American Friends of the National Gallery, London, Inc to be related parties because in each case one or more Trustees of the National Gallery also sit on the board of the related party. All three entities are entirely separate charities with independent boards, the majority of whose members are unconnected with the National Gallery. None of the related parties, or their subsidiary undertakings, is consolidated into the accounts of the National Gallery.

The National Gallery also entered into material related party transactions with other related parties during the year, as set out below:

Related party	Nature of relationship	Value of income received during the year £'000	Value of expenditure during the year £'000	Outstanding balances due from/(to) related party at year end £'000	Nature of transaction
American Friends of the National Gallery, London, Inc	Mr Mark Getty, director of the related party, served as trustees of the National Gallery during the year	711	–	22	Grants for specific projects and accounting fee.
BBC	Public corporation of the DCMS. Ms Caroline Thomson, Chief Operating Officer and Executive Board Member of the related party, served as trustee of the National Gallery during the year.	2	–	–	Charges for filming at the National Gallery.
British Museum	Entity sponsored by DCMS	1	23	(10)	Internal audit fee.
CQS	Mr Michael Hintze, a Chief Executive of the related party, served as trustee of the National Gallery during the year.	–	27	–	Corporate membership.
John S Cohen Foundation	The Chairman of the John S Cohen Foundation is married to a member of the National Gallery's Executive Committee	20	–	–	Donation towards an Education Department project.
National Gallery Company Ltd	Mr Lance Batchelor, director of the related party, served as trustee of the National Gallery during the year. Nicholas Penny, the director of NG, served as a non-executive director of NGC during the year.	562	137	238	Rent for commercial space within the National Gallery and payment for publications.

Related party	Nature of relationship	Value of income received during the year £'000	Value of expenditure during the year £'000	Outstanding balances due from/(to) related party at year end £'000	Nature of transaction
National Gallery Trust	Mr Mark Getty and Mr Lance Batchelor, trustees of the related party served as trustees of the National Gallery during the year	783	1,970	515	Grants for specific projects and accounting fee received from NGT, a grant due to NGT and other amounts due from NGT.
National Portrait Gallery	Entity sponsored by DCMS	257	39	60	Utility supply and electrical main upgrade recharges.
Natural History Museum	Entity sponsored by DCMS	-	10	-	Fee for Museum Directors' Conference
The NGT Foundation	Mr Mark Getty and Lady Heseltine, trustees of the related party, served as trustees of the National Gallery during the year	40	450	-	Rental of office space, annual management and accounting fee recharge.
Tate	Prof David Ekserdjian, trustee of the related party, served as trustee of the National Gallery during the year.	1	-	-	Reimbursement of glazing costs and repayment for marketing distribution.
The Victoria & Albert Museum	Entity sponsored by DCMS. Mr Michael Hintze, a trustee of the National Gallery served on the International Council of the V&A during the year	1	3	1	Recharge of shared legal fee costs. Conference cost and the Seduced by Art exhibition preparation costs.
Vodafone Group PLC	Mr Nick Land, non-executive director of the related party, served as an external member of Audit and Finance Committees of the National Gallery during the year.	-	18	-	The National Gallery mobile phone rental and call charges.
The Wallace Collection	Entity sponsored by DCMS. Ashok Roy, Senior Manager at the National Gallery, served as a trustee of the Wallace Collection London during the year.	3	-	3	Supply of photography services.
		2,381	2,677	829	

23. Post Balance Sheet events

The financial statements were authorised for issue by the Accounting Officer and Trustees on the date shown on the audit certificate. There were no post balance sheet events to report.



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